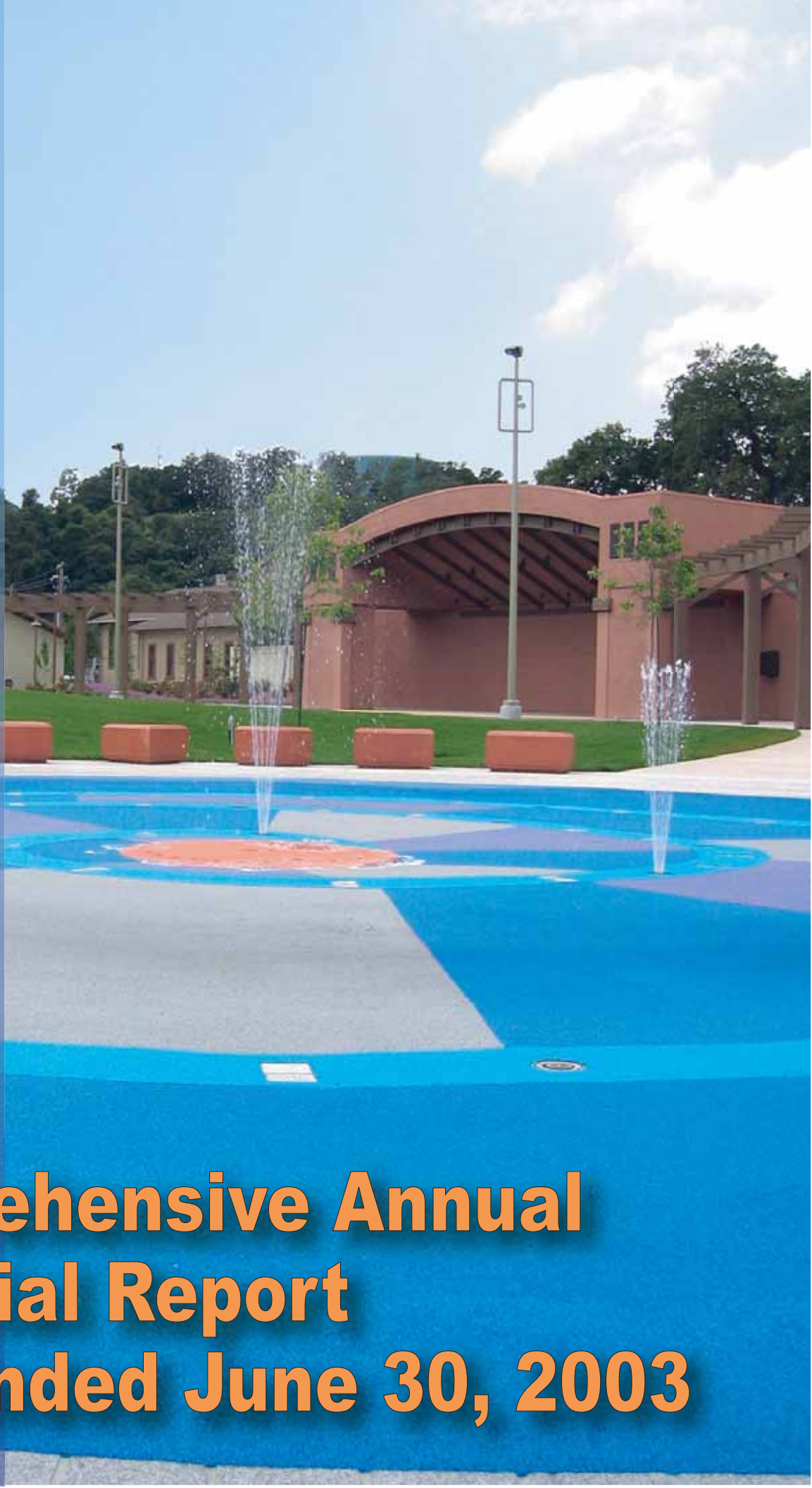




CITY OF MORGAN HILL  
CALIFORNIA



# Comprehensive Annual Financial Report Year Ended June 30, 2003





# **CITY OF MORGAN HILL**

**Prepared by**

**FINANCE DEPARTMENT**

**CITY OF MORGAN HILL, CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2003**



**CITY OF MORGAN HILL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**CITY OF MORGAN HILL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

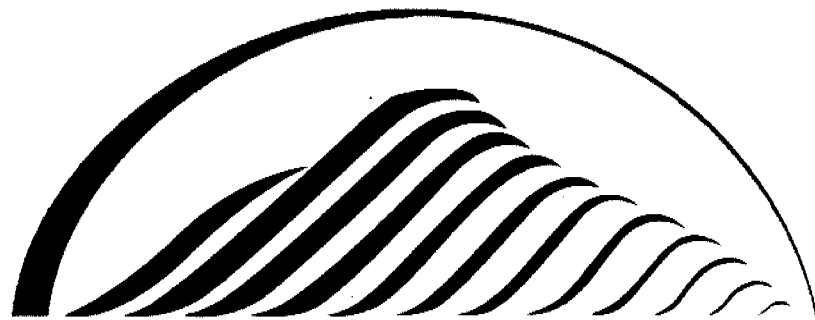
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## **INTRODUCTORY SECTION**



**CITY OF MORGAN HILL**





December 17, 2003

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The Comprehensive Annual Financial Report (CAFR) for the City of Morgan Hill, California for the fiscal year ended June 30, 2003, is submitted for your information and review. The responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent auditor, Caporicci & Larson, which has issued an unqualified opinion. The auditor's opinion letter is included in this report.

The City was not required to undergo a single audit for 2002/03 federal assistance to the City under the provisions of The Single Audit Act, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non Profit Organizations.

This year's report has been reformatted to comply with the new financial reporting model developed by Governmental Accounting Standards Board (GASB) Statement 34. The new financial reporting model has resulted in significant changes to the format of the City's financial statements. It is intended to improve financial reporting by providing additional information not previously available in local government financial statements. Major changes to the City's CAFR include new government-wide financial statements designed to provide readers with a broad overview of the City in a manner similar to a private business, including a statement of net assets and a statement of activities. It is important to note the following regarding these statements:

- The Statement of Net Assets and the Statement of Activities represent a combination of all of the City's funds, comprising the City's General Fund, Special Revenue, Capital Projects, Debt Service, and Enterprise Funds, including activities which are restricted in nature. Information about individual funds can still be found in the combining statements contained within the CAFR.
- The amount reported as unrestricted in the net assets section of the Statement of Net Assets includes amounts designated by the City Council for general reserve, emergency, economic uncertainty, fire master plan, and Aquatics Complex start-up cost purposes, includes amounts that have accumulated in various internal service funds to be used for the purposes intended for those funds, and includes business-type net assets that have been collected from water and sewer rate payers that are needed to fund ongoing water and sewer operating and capital needs.
- The amount reported as "invested in capital assets" in the net asset section on the Statement of Net Assets represents the portion of capital assets to be depreciated over the remaining useful lives of the assets and is not available for funding additional City projects.

- The amount reported as infrastructure only represents the current year additions to the City's infrastructure base, which includes road and park improvements. Staff is planning to perform a complete inventory of the City's infrastructure which, once complete, will replace the amount reported for infrastructure in these financial statements.

To assist with the reader's review of the City's financial statements, a new narrative section called management's Discussion and Analysis (MDA) has been added. The MDA reports on the financial highlights of the City and provides additional analysis on the variances and trends reported as part of the financial statements. In addition, the MDA is designed to disclose any significant events or decisions that affect the financial condition of the City. As a result, of the addition of the MDA to the City's CAFR, the financial analysis previously contained within the City's transmittal letter has been removed.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section, which is unaudited, includes this letter of transmittal, a list of the City's elected officials and administrative personnel, an organization chart, an area map, and certificates of award for financial reporting. The Financial Section includes the independent auditor's report on the financial statements and schedules, the MDA, basic financial statements, required supplementary information, and combining and individual fund statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Redevelopment Agency of the City of Morgan Hill are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's general purpose financial statements because the City is able to impose its will on these component units, and the component units provide services primarily to the City. The Morgan Hill Corporation Yard Commission is a joint powers association between the City and the Morgan Hill Unified School District and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the combined financial statements so that this information may be separately accounted for.

This report includes all funds of the City. The City provides a broad range of services including police protection, business assistance and housing, water and sanitation services, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, and general city administration and support services. The City receives fire protection services from the Santa Clara County Fire Department under contract. The City relies on franchised solid waste collection services.

## **ECONOMIC CONDITIONS AND OUTLOOK**

The City Council has consistently faced the challenge of balancing policies that stimulate and support economic growth with maintenance and improvement of the quality of life in Morgan Hill. The City benefits from a diverse local economy which includes a variety of business activities and employers. The largest employers are: Abbott Laboratories, Anritsu, Morgan Hill Unified School District, Comcast Cable Communications, EDO Reconnaissance & Surveillance Systems, Fox Racing, Paramit Corporation, Specialized Bicycle Components, Media Arts Group, Educational Data Systems, Safeway, and Custom Chrome.

Business attraction, economic development, affordable housing and capital improvements provide the foundation of the City's strategy for enhancing economic growth. Prudence in fiscal matters guides the City's management of its finances. Economic boom times are balanced with financial common sense to plan for future financial soundness.

Goal setting and establishment of priorities based on community input assure that issues important to the citizens of Morgan Hill are appropriately addressed. These issues include access to housing, enhanced recreation facilities, public safety, and emergency services. The City has been responsive to these issues, as shown by the progress toward these goals and the establishment of a solid foundation for the future. In particular, a substantial Capital Improvement Program includes a community and cultural center that opened in January 2003, an Aquatics Complex currently under construction, and the planned construction of a new police facility within the next year. Much of this activity stems from the City's commitment to the redevelopment process through the actions of the Redevelopment Agency.

Currently, Morgan Hill is still experiencing the effects of a continuing slowdown in the regional and State economy. Beginning in the fourth quarter of 2000/01, the City began experiencing the effects of a recession. Unemployment and commercial vacancy rates for the Silicon Valley as a whole increased and have remained high. However, employment for the City's top 40 employers remained stable at about 5,500 between July 2002 and July 2003, and total employment for the City remained stable at approximately 9,900 for the same period, according to employment numbers reported to the City by businesses for business license purposes. Property tax collections have remained stable, reflecting higher residential property values offset somewhat by lower commercial property values.

The downturn in the economy reduced the City's General Fund tax revenue collections in 2002/03. Sales taxes decreased by 5%, while franchise, hotel, and other taxes decreased by a combined 2%, and licenses and permits decreased by 5% due to the continued slump in the economy associated with the loss of jobs throughout the greater Silicon Valley. The downturn is continuing to affect tax revenue collections in 2003/04. The effects are compounded by the State Government's fiscal crisis and its effects on local government. In addition, the City plans to open new recreational facilities in the next several years, including a new Aquatics Complex by June 2004, and to complete construction on a new police facility by the summer of 2004. The operating and debt service costs associated with new facilities, along with rapidly increasing employer retirement system costs, increasing workers compensation costs, and the expected increase in contract fire service costs when the current contract is up for renewal in 2005, will place significant fiscal pressures upon the General Fund over the next several years.

The City's General Fund is expected to take in approximately \$500,000, or 3%, less in total revenues during 2003/04 than originally anticipated in the 2003/04 Budget which, when added to a \$400,000 adopted budget deficit, would result in a \$900,000 projected excess of expenditures over revenues for 2003/04. The \$500,000 projected shortfall in revenues is primarily the result of a continued decline in sales taxes estimated at \$400,000, plus a \$400,000 State reduction in motor vehicle-in-lieu fees funding, offset by a projected increase of \$300,000 in property tax collections. In response, the City is reducing expenditures through a hiring freeze and other cost saving programs. Staff will be presenting a budgetary plan to confront the financial issues facing the City, as directed by the City Council, in January 2004.

The General Fund \$900,000 shortfall would become a \$1,900,000 shortfall if the State does not appropriate funds to pay cities and counties for the full share of motor vehicle-in-lieu fees for the last three quarters of the 2003/04 fiscal year. To date, the State has not appropriated these funds.

While the General Fund had strong reserves of approximately \$11 million (or approximately 70% of budgeted revenues) at June 2003, without structural expenditure changes and/or expanded revenue sources, these reserves would be expected to disappear by June 2008. The City Council has adopted a

reserve policy for key operating funds as a strategic tool in managing the City's resources. For the General Fund, the City Council formally established a reserve equal to 40% of budgeted revenues for general reserve, economic uncertainty, and emergency purposes. In addition, the City Council designated \$1.4 million of General Fund monies for the Fire Master Plan Implementation.

## **ACCOUNTING SYSTEMS AND BUDGETARY CONTROLS**

When developing and evaluating the City's accounting system, consideration is given to the effectiveness of the internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding: safeguarding of assets against loss, accuracy and reliability of accounting data, and adherence to prescribed managerial policy. Reasonable assurance recognizes that the cost of a control should not exceed benefits to be derived. The evaluation of costs and benefits requires estimates and judgments by management. We believe the internal accounting controls of the City adequately safeguard assets and provide reasonable assurance of proper recording of the financial transactions.

State statutes and City policy require an approved budget before expenditures are made. Budgets are adopted for all governmental funds and proprietary funds.

Budget proposals are prepared by the City's Department Directors. The budget proposals, with justifications, are submitted to the Finance Department for compilation. The budget is compiled and the City's preliminary budget is presented to the City Manager for review. The City Council reviews the preliminary budget at study sessions open to the public. Changes made at these sessions are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

The City Council may amend the budget by resolution during the year. The City Manager may transfer appropriations within an activity to facilitate the functions of that activity in accordance with the directions, goals, and policies of the City Council. A transfer of appropriations between activities requires City Council approval and any additional appropriations also require approval by the City Council. The budgeted amounts presented in the report are as originally adopted or, if amended, then as amended by the City Council.

## **CASH MANAGEMENT**

Temporarily idle cash, not restricted for other uses, was primarily invested in the California Local Agency Investment Fund (LAIF) and in U.S. Government Securities. Investments in LAIF are highly liquid, and generally may be converted to cash within twenty-four hours without loss of investment income. Of LAIF's total investments as of June 30, 2003, approximately 18% was invested in Government Bills and Notes, 24% in Federal Agency Coupons and Discount Notes, 11% in CD's, 29% in Commercial Paper and Corporate Bonds, and 18% in other investments. The amount of investment income earned for all funds decreased from the prior year due to average lower interest rates on City investments and due to lower cash balances.

## **RISK MANAGEMENT**

The City is a member of the Association of Bay Area Governments (ABAG). The city participates in the ABAG-PLAN, a self-insured risk pool formed by certain cities in California to pool their insurance risk and help lower the overall cost of providing insurance coverage for general liability claims. The coverage amount is \$10 million per occurrence, subject to a \$100,000 deductible. The City Manager, the Finance Director as Risk Manager, and the City Attorney work with the ABAG-PLAN to coordinate the City's insurance policies, maintain insurance records and represent the City in handling claims.

In addition, the City is fully self-insured for unemployment insurance. The City is also self insured for workers' compensation up to a maximum of \$250,000 for each claim. Purchased insurance covers the excess up to \$5,000,000 per year for workers' compensation claims.

## AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

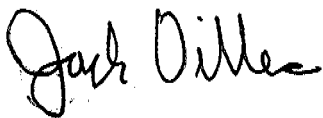
The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last nine consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA again this year.

In addition, the City received the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO), for the eighth consecutive year, for its Comprehensive Annual Financial Report the fiscal year ended June 30, 2002. The criteria for this award are very similar to that of GFOA.

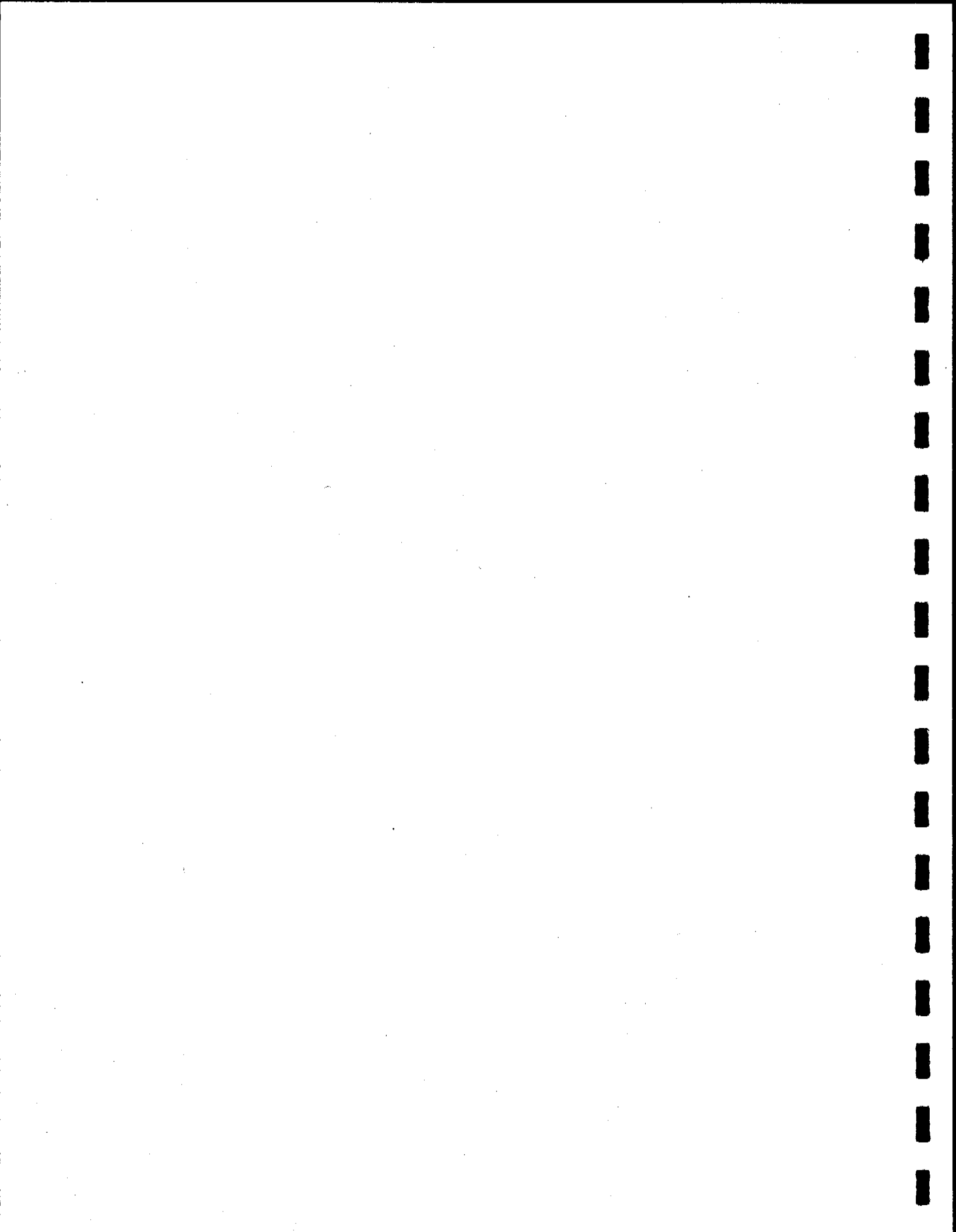
## ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report represents many months of work by the City's entire Finance Department staff. Special thanks go to Assistant Finance Director Tina Reza and to Accountants Isabel Jones and Lourdes Reroma for their accomplishments in the preparation of this report. I also wish to express my appreciation to the City Council and City Manager for their leadership and support.

Sincerely,



Jack Dilles  
Director of Finance



# **CITY OF MORGAN HILL, CALIFORNIA**

## **ELECTED OFFICIALS AND CITY STAFF AS OF JUNE 30, 2003**

### **ELECTED OFFICIALS**

Dennis Kennedy	Mayor
Hedy L. Chang	Mayor Pro Tem
Larry Carr	Council Member
Greg Sellers	Council Member
Steve Tate	Council Member
Michael J. Roorda	City Treasurer
Irma Torrez	City Clerk

### **CITY STAFF**

J. Edward Tewes	City Manager
Helene Leichter	City Attorney
Jack Dilles	Director of Finance
David Bischoff	Director of Community Development
Garrett Toy	Director of Business Assistance & Housing Services
Jerry Galvin	Chief of Police
Jim Ashcraft	Director of Public Works
Mary Kaye Fisher	Director of Human Resources
Melissa Dile	Assistant to the City Manager
Tony Eulo	Assistant to the City Manager
Irma Torrez	Council Services and Records Manager
Julie Spier	Recreation Manager

**San Francisco**

*San Francisco Bay*

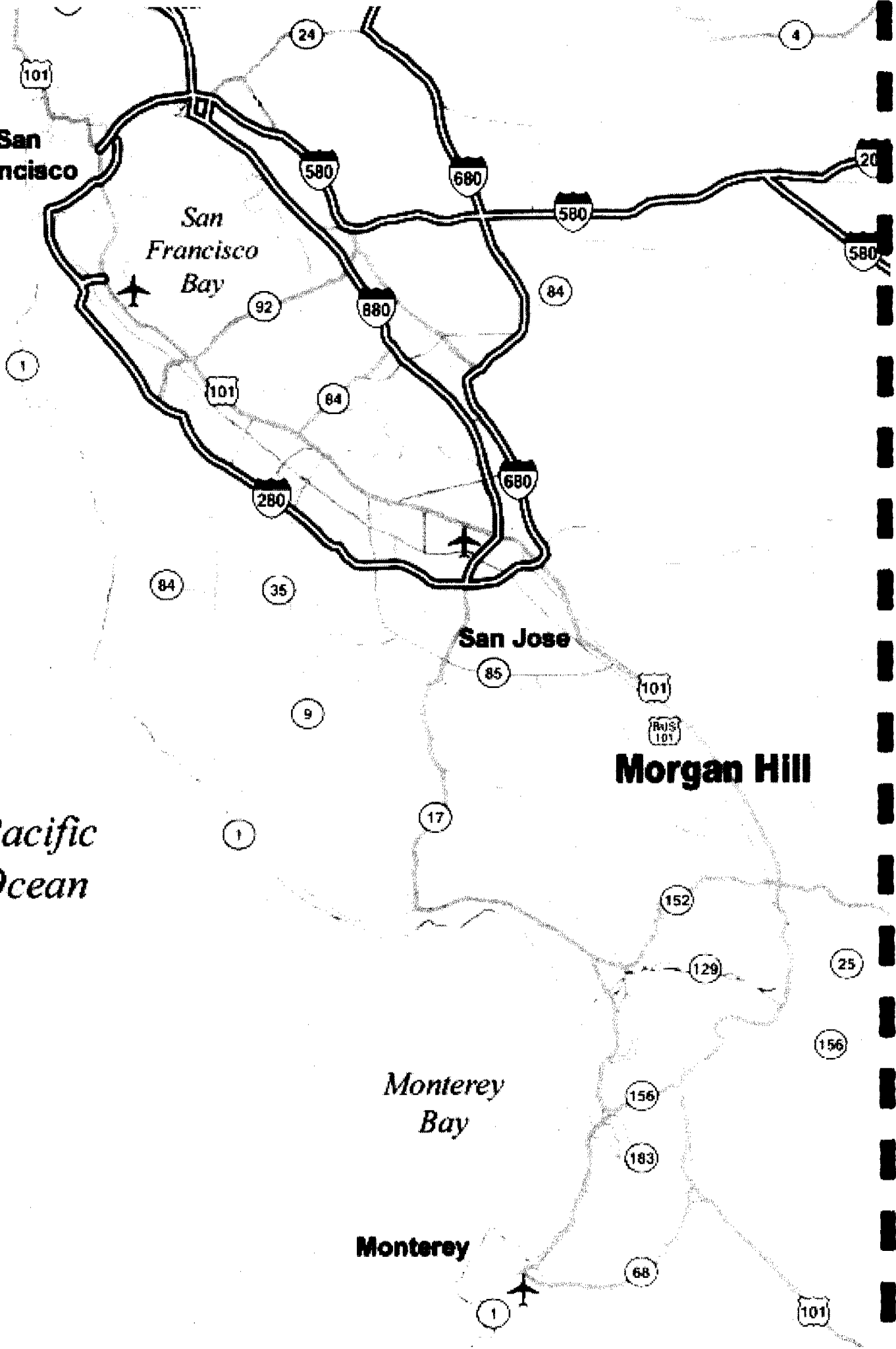
**San Jose**

**Morgan Hill**

*Pacific Ocean*

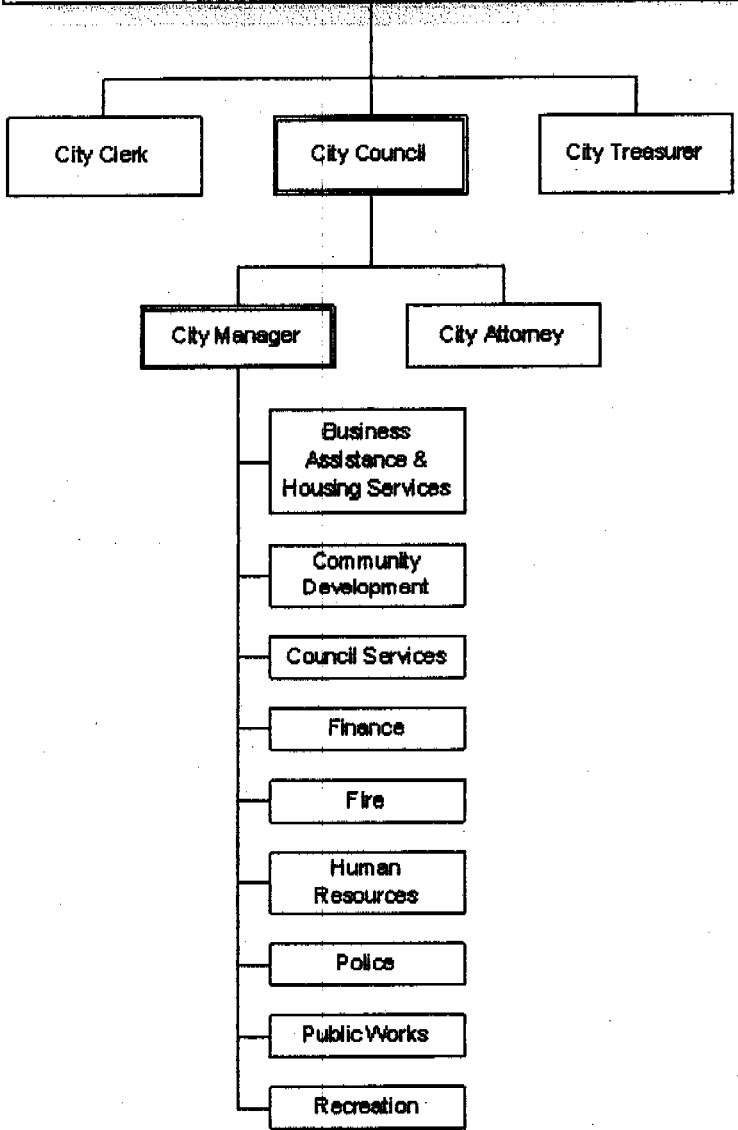
*Monterey Bay*

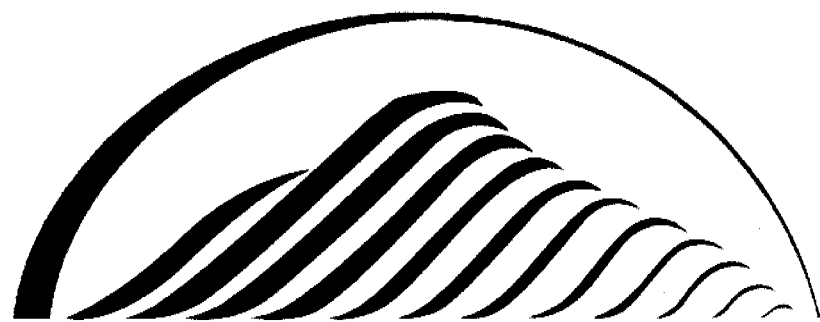
**Monterey**





**CITIZENS OF MORGAN HILL**





**CITY OF MORGAN HILL**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morgan Hill,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



# California Society of Municipal Finance Officers

## Certificate of Award

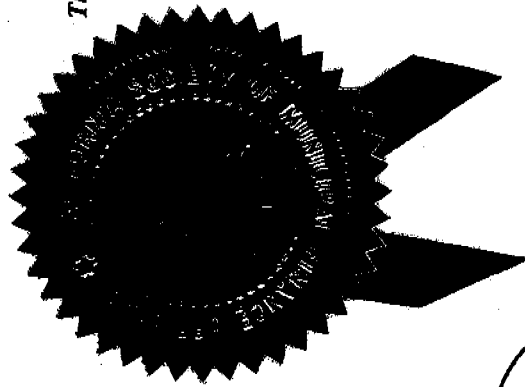
*Outstanding Financial Reporting 2001-2002*

Presented to the

*City of Morgan Hill*

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 24, 2003*



*Bret M. Chmlee*

Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*



## FINANCIAL SECTION







Caporicci & Larson  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Morgan Hill  
Morgan Hill, California

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morgan Hill, California (City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 2 to the basic financial statements, the City adopted statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplemental information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

**Oakland**

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Oakland, California 94612

**Orange County**

3184-D Airway Avenue  
Costa Mesa, California 92626

**Sacramento**

777 Campus Commons Rd., Suite 200  
Sacramento, California 95825

**San Diego**

600 "B" Street, Suite 1900  
San Diego, California 92101

To the Honorable Mayor and Members of the City Council  
of the City of Morgan Hill  
Morgan Hill, California

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

*Capricci & Larson*

Oakland, California  
October 10, 2003

## Management's Discussion and Analysis (MDA) June 30, 2003

As management of the City of Morgan Hill (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. Please read this overview in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements. Since this is the first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, comparative data is not provided.

### FINANCIAL HIGHLIGHTS

- During Fiscal Year 2002/03, the City's net assets, representing the difference between total assets and total liabilities, increased by \$38.0 million to \$223.0 million. The increase primarily resulted from the addition of \$14.4 million in current year infrastructure and construction in progress, the addition of \$5.2 million from incorporating the assets and liabilities of internal service funds into governmental activities for purposes of government-wide reporting, the inclusion of \$7.5 million in interest earnings on long-term Redevelopment Agency loans receivable in governmental activities for purposes of government-wide reporting, and the reduction of long-term debt by \$5.2 million, primarily associated with the use of Redevelopment Agency property tax increment revenue to pay down debt obligations.
- Of the total \$223.0 million in net assets, \$105.8 million represents investments in capital assets, \$48.1 million represents net assets restricted by outside agencies and state regulations for specific purposes, and \$69.1 million represents unrestricted net assets that may be used to meet the City's ongoing obligations to its citizens and creditors.
- Total revenues from all sources were \$73.8 million and total expenses for all City programs were \$35.8 million.
- At June 30 2003, the City had \$36.8 million in long-term debt, comprised of \$5.0 million in debt secured by water revenues, \$22.7 million in wastewater capacity rights payable secured by sewer revenues, \$6.9 million in loans mostly secured by liens on real estate purchased by the City, \$1.3 million in special assessment bonds secured by property owner assessments, and \$0.9 million in compensated absences payable.
- At June 30, 2003, the City's governmental funds reported ending fund balances of \$87.2 million, an increase of \$2.0 million in comparison with the prior year.
- The unreserved portion of fund balance in the City's General Fund decreased by \$0.4 million to \$10.5 million. As discussed in the notes to the financial statements, the City Council designated \$7.4 million of this total to provide for a general reserve, an economic uncertainty reserve, an emergencies reserve, a reserve for Fire Master Plan Implementation, and the Aquatics Complex start-up.
- During Fiscal Year 2002/03, General Fund expenditures exceeded revenues by \$0.6 million, while combined expenditures and transfers out exceeded combined revenues and transfers by \$0.2 million.
- Actual revenues in the General Fund were \$0.6 million less than the final budget because of a decline in sales taxes.

- Actual expenditures in the General Fund were \$1.0 million less than the final budget primarily because of expenditure reduction controls placed upon City departments by management under the direction of the City Council.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components:

- Government-wide financial statements – These include the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the City as a whole and about the overall financial condition of the City in a manner similar to a private-sector business. These statements are described in more detail in a subsequent section in this MDA and can be found on pages 19 and 20 of this report.
- Fund financial statements – These statements provide additional information about the City's major funds, including how services were financed in the short term and fund balances available for financing future projects. These statements are described in more detail in a subsequent section of this MDA and can be found on pages 21 through 32 of this report.
- Notes to the financial statements – The notes provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes can be found on pages 33 through 64 of this report.

### A. Government-Wide Financial Statements

These statements include all assets and liabilities of the City using the *accrual* basis of accounting, which is similar to the accounting used by most private sector companies. All current year's revenues and expenses are accounted for regardless of when the cash is paid or received.

These statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in net assets are indicators of whether the financial condition of the City is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax and sales tax bases or in the condition of the City's infrastructure (i. e. parks and streets), to accurately assess the overall health of the City.

These statements present information about the City's activities, all of which are considered governmental in nature. These include services provided for general government, public safety (police and fire), community development, public works development (streets and parks), recreation & culture, sewer, and water. These services are funded from monies received from property, sales, and other taxes, direct charges, for services, provided, grants, contributions from other agencies, and development impact fees collected from new development.

### B. Fund Financial Statements

These statements provide more detailed information about the City's major funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories, which are governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and for the Redevelopment Agency capital projects fund, as they qualify to be classified as major funds. Data for the other 29 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements included elsewhere in this report.

The City adopts an annual appropriated budget for each of the City's governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

**Proprietary funds:** The City maintains two different types of proprietary funds, which are *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for sewer and water operations, as well as for sewer and water mitigation activities.

*Internal service funds* are accounting devices used to accumulate and allocate costs internally among the City's various functions and to build up reserves for the replacement of capital assets. The City uses internal service funds to account for building maintenance, information systems, unemployment insurance, workers' compensation, general liability claims, equipment replacement, and capital improvement program administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All seven internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements provide separate information for sewer operations, sewer mitigation, water operations, and water mitigation, all of which are presented as major funds of the City because of significant public interest.

**Fiduciary Funds:** The City acts as a trustee, or fiduciary in collecting assessments and remitting bond payments for the Morgan Hill Business Ranch, Tennant Business Park, and Madrone Business Park assessment districts. The City has no legal, contingent, or moral obligation for the repayment of the debt associated with these particular assessment districts and merely ensures that assets received are used for their intended purposes. In addition, the City maintains a Special Deposits Fund in which the City accounts for deposits held in trust for the benefit of third parties. Therefore, these fiduciary activities are excluded from the City's fund financial statements because these assets cannot be used to finance operations. The activity for this fund, however, is provided for in a separate combining statement of changes in assets and liabilities contained elsewhere in this report.

### **C. Notes to the Financial Statements**

The notes provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes can be found on pages 33 through 64 of this report.

### **D. Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide certain pension benefits to its employees. Required information can be found on page 65 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net assets for the Fiscal Year ended June 30, 2003, were \$223.0 million. A significant portion of the City's net assets (\$105.8 million or 47%) reflects the City's investment in capital assets (e. g. land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net assets (\$48.1 million or 22%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$69.1 million or 31%) may be used to meet the City's ongoing obligations to citizens and creditors. The total \$69.1 million in unrestricted net assets is comprised of \$49.1 million in governmental unrestricted net assets and \$20.0 million in business-type unrestricted net assets. The governmental unrestricted net assets include City Council designations totaling \$7.4 million of General Fund dollars for general reserve, emergency, economic uncertainty, fire master plan, and Aquatics Complex start-up cost purposes, include \$4.6 million in dollars that have accumulated in various internal service funds to be used for the purposes intended for those funds, include \$11.6 million in unencumbered capital project funds not associated with development impact fees, include \$10.3 million in encumbrances committed to purchases, include , and include \$9.7 million in deferred revenues not currently available. The unrestricted business-type net assets are funds that have been collected from water and sewer rate payers and are needed to fund ongoing water and sewer operating and capital needs.

The table below summarizes the City's net assets:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
Current and other assets	105,364,449	27,436,627	132,801,076
Capital assets	<u>58,297,227</u>	<u>73,958,835</u>	<u>132,256,062</u>
<b>Total assets</b>	<b>163,661,676</b>	<b>101,395,462</b>	<b>265,057,138</b>
Long-term liabilities	8,938,836	27,843,890	36,782,726
Other liabilities	<u>3,575,101</u>	<u>1,721,277</u>	<u>5,296,378</u>
<b>Total liabilities</b>	<b>12,513,937</b>	<b>29,565,167</b>	<b>42,079,104</b>
<i>Net assets:</i>			
Invested in capital assets, net of related debt	58,297,227	47,480,364	105,777,591
Restricted	43,679,938	4,373,963	48,053,901
Unrestricted	<u>49,170,574</u>	<u>19,975,968</u>	<u>69,146,542</u>
<b>Total net assets</b>	<b><u>151,147,739</u></b>	<b><u>71,830,295</u></b>	<b><u>222,978,034</u></b>

**Governmental activities:** The charts below summarize major expenditure program categories, program revenues used to fund specific expenditure programs, and general City revenues available for funding all City programs. Note that a Schedule of Changes in Net Costs/Revenues is not presented due to the exclusion of comparative data in this report, as previously described in the MDA. Beginning with Fiscal Year 2003/04, this schedule will be included.

Governmental activities increased the City's net assets by \$37.4 million, thereby accounting for 98% of the total growth in net assets for the City. Key elements of this increase are as follows:

- Current year infrastructure and construction in progress, valued at a combined, \$14.4 million were added to net assets.
- Net assets of \$5.2 million were added as the result of incorporating internal service fund assets and liabilities into governmental activities for purposes of government-wide reporting.
- Long-term debt was reduced by \$5.2 million, primarily associated with the use of Redevelopment Agency property tax increment revenue to pay down debt obligations.
- Interest earnings, amounting to \$7.5 million, on long-term Redevelopment Agency loans receivable were newly included for purposes of government-wide reporting.
- Long-term debt was reduced by \$5.2 million, primarily associated with the use of Redevelopment Agency property tax increment revenues to pay down debt obligations.

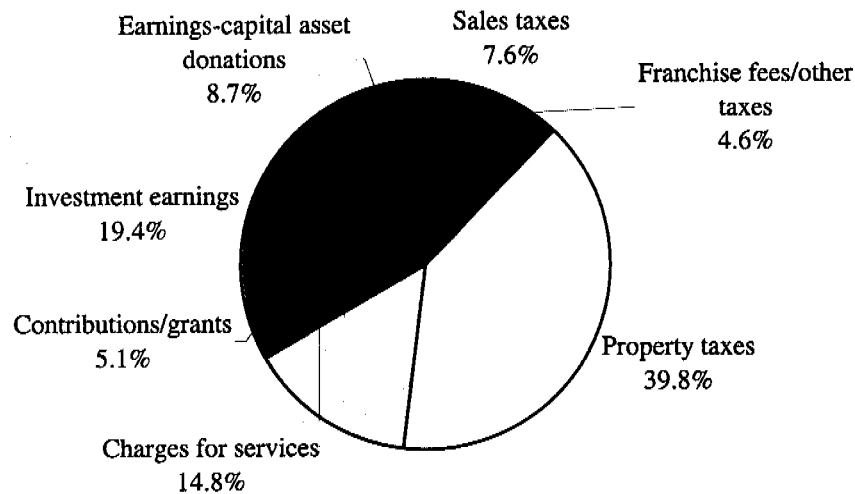
**CITY OF MORGAN HILL CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
<b>Revenues:</b>			
<u>Program Revenues:</u>			
Charges for services	\$ 9,047,346	\$ 12,354,701	\$ 21,402,047
Operating grants & contributions	3,010,086	192,299	3,202,385
Capital grants & contributions	120,141		120,141
<u>General Revenues:</u>			
Property taxes	24,226,642		24,226,642
Sales taxes	4,636,927		4,636,927
Franchise taxes	2,401,341		2,401,341
Business license taxes	196,209		196,209
Other general revenue taxes	43,600		43,600
Unrestricted investment earnings	11,706,815	537,303	12,244,118
Unrestricted investment earnings from dantated infrastructure	5,286,768	-	5,286,768
<b>Total Revenues</b>	<u>60,675,875</u>	<u>13,084,303</u>	<u>73,760,178</u>
<b>Expenses:</b>			
General Government	6,684,625		6,684,625
Public Safety	9,467,613		9,467,613
Community Development	2,678,838		2,678,838
Public Works/Development Services	3,231,907		3,231,907
Recreation and Culture	1,440,595		1,440,595
Interest on long-term debt	372,209		372,209
Sewer		6,274,448	6,274,448
Water	-	5,641,739	5,641,739
<b>Total Expenses</b>	<u>23,875,787</u>	<u>11,916,187</u>	<u>35,791,974</u>
Increase in net assets before transfers	36,800,088	1,168,116	37,968,204
Transfers	635,000	(635,000)	-
Increase in net assets	37,435,088	533,116	37,968,204
Net assets - 7/1/02	113,712,651	71,297,179	185,009,830
<b>Net assets - 6/30/03</b>	<u>\$ 151,147,739</u>	<u>\$ 71,830,295</u>	<u>\$ 222,978,034</u>

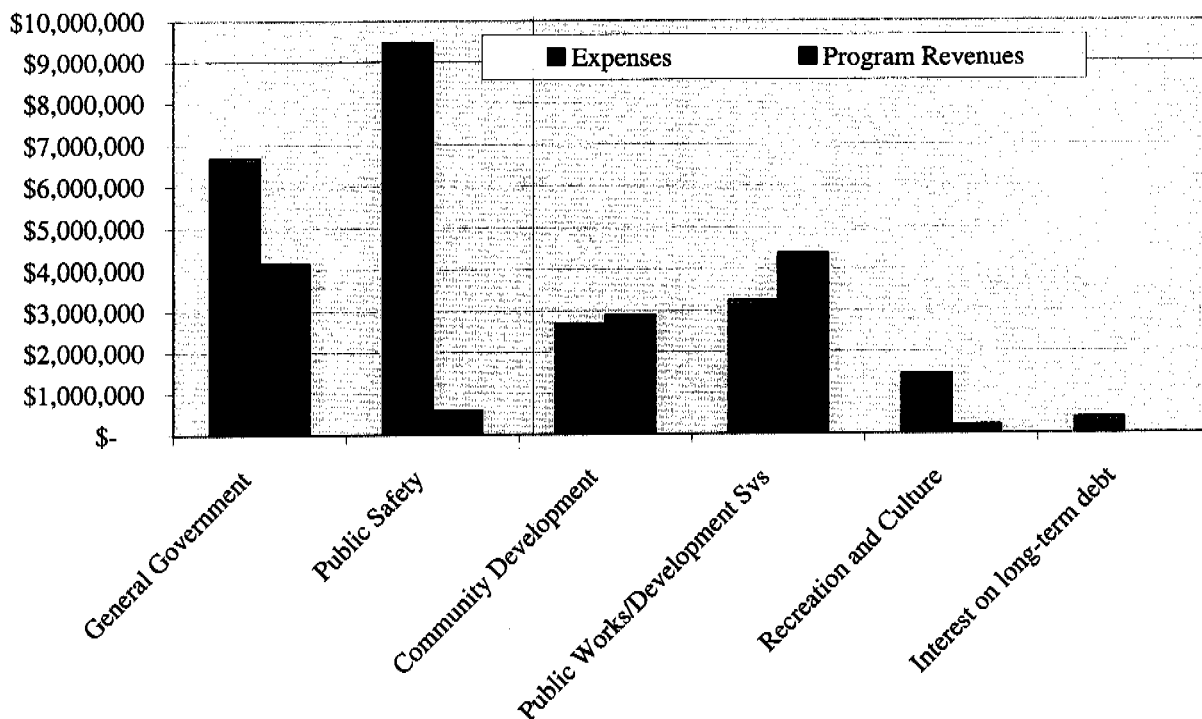


**Revenues by Source (in Millions) - Governmental Activities**

**\$59.3 Million**

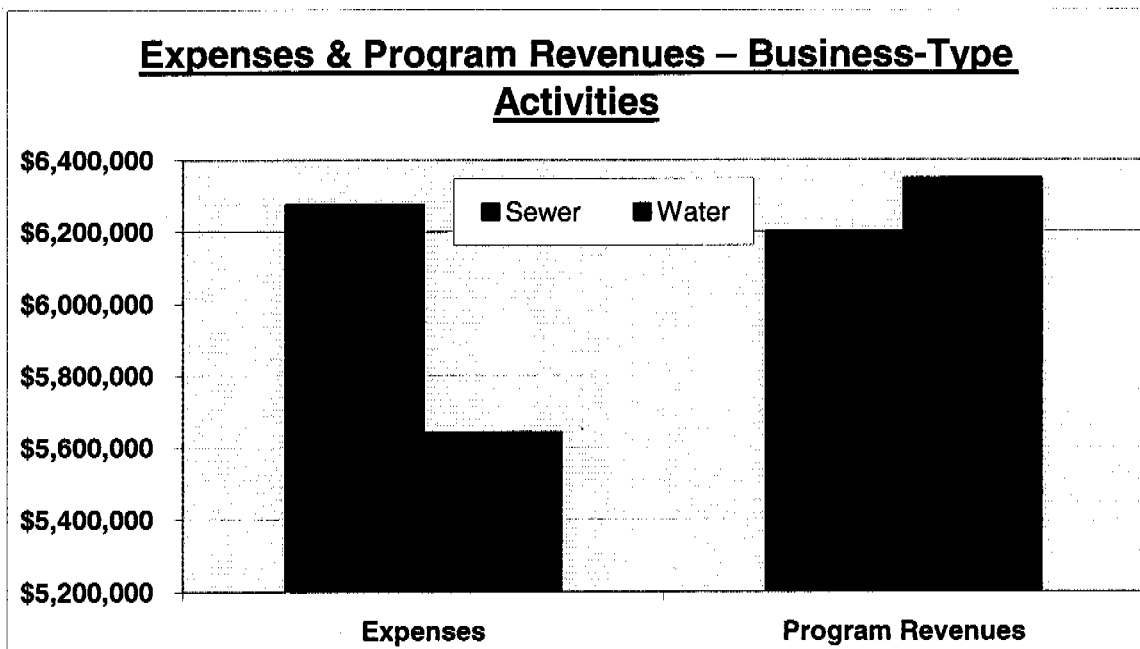
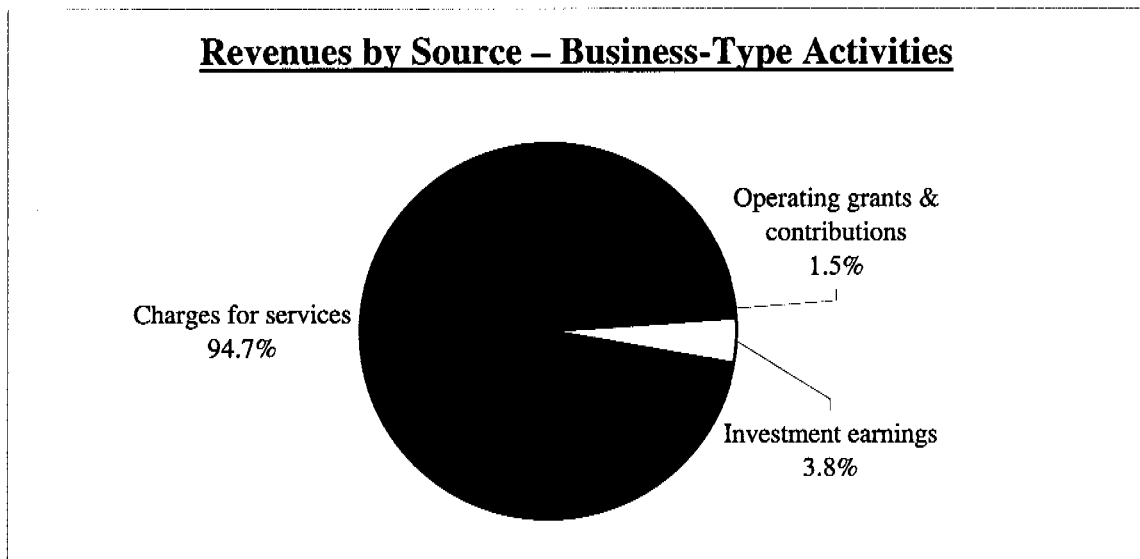


**Expenses & Revenues – Governmental Activities**



**Business-type activities:** Business-type activities increased the City's net assets by \$0.6 million, thereby accounting for 2% of the total growth in net assets for the City. Key elements of changes are as follows:

- Net assets for Sewer Operations decreased by \$0.8 million as expenses exceeded revenues and used available retained earnings.
- Net assets for Sewer Mitigation and Water Operations increased by \$0.5 million and \$0.2 million, respectively.
- Net assets for Water Mitigation increased by \$0.5 million, but only because of a transfer from Water Operations in this same amount.



## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$87.2 million, an increase of \$2.0 million in comparison with the prior year.

Of the increase in fund balances, approximately \$1.7 million related to the Redevelopment Agency.

### GENERAL FUND

The General Fund is the chief operating fund of the City. At the end of Fiscal Year 2002/03, total fund balance for the General Fund amounted to \$11.5 million, including \$1.0 million reserved for encumbrances, loans receivable, and restricted cash associated with increased market value at June 30, 2003. Of the remaining \$10.5 million, \$7.4 million has been designated for various purposes, as explained above.

During Fiscal year 2002/03, expenditures exceeded revenues by \$0.6 million; or, if transfers were included, expenditures and transfers out exceeded revenues and transfers in by \$0.2 million. In the City's 2002/03 original operating budget document, a \$0.3 million excess of expenditures and transfers out over revenues and transfers in was anticipated.

Significant changes in Revenues and Expenditures that affected the change in fund balance for the General Fund are as follows:

#### a. Revenue Highlights

Property taxes increased by 7% over the prior year primarily due to a general overall increase in assessed property values in the City associated with a strong housing market and due to the addition of new residential units.

Sales taxes decreased by 5%, franchise, hotel, and other taxes decreased by 2%, and licenses & permits decreased by 5% due to a continued slump in the economy associated with the loss of jobs in the greater Silicon Valley.

Charges for current services increased by 15% because of higher general administration cost allocation recoveries from other funds and because of a significant increase in recreation program revenues associated with the opening of the City's new Community and Cultural Center.

Investment and rental income fell by 45% primarily because of a decline in interest rates earned on idle funds and because of market valuation differences associated with the City's investments. These valuation differences reflect the City's investment "buy and hold philosophy."

#### b. Expenditure Highlights

Public Works/Development Services costs increased by 30% primarily because the City began charging itself for the cost of water used in City facilities and parks beginning in Fiscal Year 2002/03.

#### c. Budgetary Highlights

Over the course of the year, the City Council revised the City budget with adjustments that fell into one of the following three categories:

- Charges to adjust appropriations for capital project and encumbrance carryovers from the prior year.
- Charges made during the year to adjust revenues and augment current year appropriations
- Other revenue and expenditure adjustments approved after the original budget was adopted.

Budget adjustments approved by the City Council during Fiscal Year 2002/03 were primarily related to projects and encumbrances carried over from the prior year and with unanticipated legal costs.

After taking into account these adjustments, actual expenditures were \$1.0 million less than final budget amounts. Of the total, approximately \$0.4 million related to police services, \$0.4 million related to other City services, and \$0.2 million related to capital outlay costs. Most of the savings were associated with departmental labor and other costs associated with a City-wide cost reduction program initiated to confront the City's reduced sales tax base and increasing operating costs such as higher retirement system costs.

### **REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND**

The Redevelopment Agency Capital Projects Fund accounts for property tax increment revenues received by the Redevelopment Agency. The funds received are used to pay for capital projects in accordance with Redevelopment Plan, for economic development, and for affordable housing programs. At the end of Fiscal year 2002/03, the total fund balance for the Redevelopment Agency was \$45.2 million, of which \$5.9 million was reserved for affordable housing, \$7.7 million was reserved for encumbrances, \$20.4 million was reserved for non-current loans receivable, \$0.2 million for other purposes, and \$11.1 million was available to be spent on certain capital projects described in the Redevelopment Plan.

During Fiscal Year 2002/03, Redevelopment Agency revenues exceeded expenditures by \$1.5 million. The excess was due to the timing of capital project expenditures. Existing fund balances and Fiscal Year 2002/03 revenues were used to pay for the following major capital projects during Fiscal year 2002/03:

- Completion and opening of new Community & Cultural Center
- Completion of design for an Aquatics Complex
- Development of a plan with Santa Clara County to construct a Morgan Hill Courthouse

### **PROPRIETARY FUNDS**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at June 30, 2003, amounted to \$12.5 million for Sewer Operations, \$0 for Sewer Mitigation, \$7.5 million for water operations, and \$0 for water mitigation. In addition, Sewer Mitigation had \$4.6 million in net assets restricted for capital expansion. The total growth for all four funds combined was \$0.5 million, as previously described above.

### **Capital Asset and Debt Administration**

**Capital Assets:** The City's investment in capital assets for its governmental activities as of June 30, 2003, amounted to \$58.3 million (net of accumulated depreciation), as summarized below. This investment in capital assets includes land, buildings, park and roadway improvements, vehicles & other equipment, infrastructure, and construction in progress, as summarized in the schedule below. During the current fiscal year, the City's investment in capital assets increased by approximately \$23.1 million, or 51%:

<u>Item:</u>	<u>Governmental Activities June 30, 2003</u>
Land	\$ 23,560,224
Buildings & Other Improvements	19,749,967
Machinery, Equipment, & Vehicles	622,947
Infrastructure	6,592,963
Construction In Progress	7,771,126
<b>Total Governmental Capital Assets</b>	<b>\$ 58,297,227</b>

Major capital asset events during the current fiscal year included the following:

<u>Capital Project:</u>	<u>Fiscal Year 2002/03 Expenditures</u>
Sports Complex property purchase	\$ 2,550,000
Community & Cultural Center	6,594,120
Community Playhouse	2,519,215
Wastewater Treatment Plant Improvements	1,477,665
Butterfield Blvd. Phase IV Improvements	1,066,580
Edmundson Water Tank Design	1,475,928

### Long-term Debt

At the end of Fiscal Year 2002/03, the City had long-term debt outstanding of \$36.8 million. Of this amount, \$0.9 million comprises debt backed by the full faith and credit of the City, \$1.3 million is special assessment debt for which the City is liable only in the event of default by the property owners subject to the assessments, and \$6.9 million is secured by liens on real estate owned by the City. The remainder of the City's debt represents bonds secured solely by specified water and sewer sources.

The City's total debt decreased by approximately \$3 million (7 %) during Fiscal Year 2002/03. Most of this decrease was related to loan payments made by the Redevelopment Agency for properties previously purchased by the Agency.

During Fiscal Year 2002/03, the City refinanced existing sewer revenue bonds to take advantage of favorable interest rates. The result was an annual reduction of approximately \$115,000 in debt service payments for each of the next 20 years.

### Economic Factors and Next Year's Budgets

Given the state of the local economy and the significant deficits forecast as part of the State of California Budget, caution was exercised in developing the City's budget for Fiscal year 2003/04. The City's adopted budget for Fiscal year 2003/04 was \$101.3 million, including \$55.6 million for capital projects and \$45.7 million for operations. The amount budgeted for operations in Fiscal year 2003/04 represents a decrease of 11% compared to Fiscal year 2002/03.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following address: City of Morgan Hill, Finance Department, 17555 Peak Avenue, Morgan Hill, CA 95037.



# **Basic Financial Statements**





# **Government-Wide Financial Statements**



**City of Morgan Hill, California**

**Statement of Net Assets**

**June 30, 2003**

**Comprehensive Annual Financial Report**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MH Corporation Yard Commission
<b><u>Assets</u></b>				
Pooled cash and investments	\$ 57,220,085	\$ 18,269,430	\$ 75,489,515	\$ 93,086
Restricted pooled cash and investments	15,137,053	5,028,571	20,165,624	
Cash with fiscal agents		2,253,116	2,253,116	
Receivables:				
Taxes and special assessments	2,592,656	167,492	2,760,148	
Accrued interest	374,001	1,718,018	2,092,019	1,568
Other accounts receivable	832,414		832,414	46,128
Deposit in Escrow/Prepaid items	139,331		139,331	
Investment in properties held for resale	71,049		71,049	
Notes receivable			-	
Loans receivable	28,997,860		28,997,860	
Capital assets, net	43,933,138	53,557,893	97,491,031	224,760
Infrastructure	14,364,089		14,364,089	
Sewer capacity rights		20,400,942	20,400,942	
<b>Total Assets</b>	<b>163,661,676</b>	<b>101,395,462</b>	<b>265,057,138</b>	<b>365,542</b>
<b><u>Liabilities</u></b>				
Accounts payable	2,330,752	1,101,164	3,431,916	100,545
Accrued liabilities	1,230,048	581,927	1,811,975	
Deferred revenue (Note 7)				
Customer and other deposits	14,301	38,186	52,487	
Compensated absence obligation (Note 8)	736,822	130,925	867,747	
Bonds payable & other long-term debts	8,202,014	5,028,090	13,230,104	
Capacity rights payable	-	22,684,875	22,684,875	
<b>Total Liabilities</b>	<b>12,513,937</b>	<b>29,565,167</b>	<b>42,079,104</b>	<b>100,545</b>
<b><u>Net Assets</u></b>				
Invested in capital assets	58,297,227	47,480,364	105,777,591	
Restricted	52,437,670	4,373,963	56,811,633	146
Unrestricted	40,412,842	19,975,968	60,388,810	264,851
<b>Total Net Assets</b>	<b>\$ 151,147,739</b>	<b>\$ 71,830,295</b>	<b>\$ 222,978,034</b>	<b>\$ 264,997</b>

See accompanying notes to financial statements.

City of Morgan Hill  
Statement of Activities  
For the Year Ended June 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit Corporation Yard
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental Activities:							
General government	\$ 6,684,625	\$ 4,145,089			\$ (2,539,536)	\$ (2,539,536)	
Public safety	9,467,613	381,525	200,576		(8,885,512)	(8,885,512)	
Community development	2,678,838	2,740,830	23,340	120,141	205,473	205,473	
PW/development	3,231,907	1,575,832	2,786,170		1,130,095	1,130,095	
Recreation & culture	1,440,595	204,070			(1,236,525)	(1,236,525)	
Interest on long-term debt	372,209				(372,209)	(372,209)	
Total government activities	23,875,787	9,047,346	3,010,086	120,141	(11,698,214)	(11,698,214)	
Business-type activities:							
Sewer	6,274,448	6,107,520	92,408		(74,520)	(74,520)	
Water	5,641,739	6,247,181	99,891		705,333	705,333	
Total business-type activities	11,916,187	12,354,701	192,299	0	630,813	630,813	
Total primary government	\$35,791,974	\$21,402,047	\$ 3,202,385	\$ 120,141	\$ (11,698,214)	\$ (11,067,401)	
Component units:							
Corporation Yard	\$ 938,999	\$ 783,559	\$ -	\$ -	\$ -	\$ -	\$ (155,440)
General revenues:							
Property taxes & special assessments					24,226,642	24,226,642	
Sales taxes					4,636,927	4,636,927	
Franchise taxes					2,401,341	2,401,341	
Business license taxes					196,209	196,209	
Other general revenue taxes					43,600	43,600	
Unrestricted investment earnings					11,706,815	12,244,118	7,641
Unrestricted investment earnings from donated infrastructure					5,286,768	5,286,768	
Transfers					635,000	(635,000)	0
Total general revenues and transfers					49,133,302	49,035,605	7,641
Change in net assets					37,435,088	37,968,204	(147,799)
Net assets - beginning					113,712,651	71,297,179	412,796
Net assets - ending					\$ 151,147,739	\$ 222,978,034	\$ 264,997

The notes to the financial statements are an integral part of this statement.

**City of Morgan Hill, California**  
**Balance Sheet**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

**Comprehensive Annual Financial Report**

	<u>General</u>	<u>Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Pooled cash and investments	\$ 11,279,306	\$ 24,871,055	\$ 15,184,029	\$ 51,334,390
Restricted pooled cash and investments	327,002	84,627	14,685,424	15,097,053
Cash with fiscal agents			-	-
Receivables:				
Taxes and special assessments	1,212,709		1,379,947	2,592,656
Accrued interest	61,088	140,307	152,395	353,790
Other accounts receivable	290,778	213,289	-	504,067
Deposit in Escrow/Prepaid items	7,331		317,420	324,751
Investment in properties held for resale		71,049	132,000	203,049
Notes receivable				-
Loans receivable	514,357	27,806,582	676,921	28,997,860
<b>Total Assets</b>	<b>13,692,571</b>	<b>53,186,909</b>	<b>32,528,136</b>	<b>99,407,616</b>
<b><u>Liabilities and Fund Balance</u></b>				
Liabilities:				
Accounts payable	1,399,703	519,209	317,619	2,236,531
Accrued liabilities	202,001	29,853	47,856	279,710
Deferred revenue (Note 7)	613,059	7,452,244	1,606,648	9,671,951
Customer and other deposits	14,301			14,301
<b>Total Liabilities</b>	<b>2,229,064</b>	<b>8,001,306</b>	<b>1,972,123</b>	<b>12,202,493</b>
Fund Balances:				
Reserved for:				-
Encumbrances	79,660	7,746,982	2,692,686	10,519,328
Low and moderate income housing		5,878,523		5,878,523
Noncurrent loans receivable	514,357	20,354,157	448,595	21,317,109
Investment in properties held for resale		71,049		71,049
Restricted Cash	327,002	84,627		411,629
Debt service			508,380	508,380
Capital expansion project			12,644,875	12,644,875
Unreserved, repored in:				-
General fund	10,542,488			10,542,488
Special revenue funds			5,205,262	5,205,262
Debt service funds				-
Capital project funds		11,050,265	9,056,215	20,106,480
Total fund balances	11,463,507	45,185,603	30,556,013	87,205,123
<b>Total Liabilities and Fund Balance</b>	<b>\$ 13,692,571</b>	<b>\$ 53,186,909</b>	<b>\$ 32,528,136</b>	

Amounts reported for governmental activitied in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of building maintenance management information systems, fleet management, general liability, workers' compensation and CIP administration to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	5,185,677
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	57,670,162
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(8,885,073)
Revenues earned but not available are not recorded in the funds.	9,971,850
<b>Net assets of governmental activities</b>	<b>\$ 151,147,739</b>

See accompanying notes to financial statements.

**City of Morgan Hill, California**

**Comprehensive Annual Financial Report**

**Statement of Revenues, Expenditures & Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended June 30, 2003**

	<b>General</b>	<b>Redevelopment Agency</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>				
Property taxes and special assessments	\$ 2,315,105	\$ 21,181,779	\$ 729,758	\$ 24,226,642
Sales taxes	4,636,927			4,636,927
Franchise, hotel and other taxes	2,401,341			2,401,341
Licenses and permits	196,209			196,209
Funding from other governmental agencies	2,198,368		941,975	3,140,343
Charges for current services	2,221,246		5,212,072	7,433,318
Investment income and rentals	451,852	739,092	1,015,945	2,206,889
Fines, forfeitures and other revenues	330,792	120,489	521,369	972,650
<b>Total Revenues</b>	<b>14,751,840</b>	<b>22,041,360</b>	<b>8,421,119</b>	<b>45,214,319</b>
<b><u>Expenditures</u></b>				
<b>Current</b>				
General government	4,885,853	2,422,666	638,884	7,947,403
Public safety	9,668,046			9,668,046
<b>Debt service</b>				
Principal		2,550,000	139,486	2,689,486
Interest			372,209	372,209
<b>Capital outlay</b>				
Public works/development	834,892	15,531,588	6,879,609	23,246,089
<b>Total Expenditures</b>	<b>15,388,791</b>	<b>20,504,254</b>	<b>8,030,188</b>	<b>43,923,233</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(636,951)</b>	<b>1,537,106</b>	<b>390,931</b>	<b>1,291,086</b>
<b>Other financing sources (uses)</b>				
Operating transfers in	925,332	-	1,189,082	2,114,414
Operating transfers out	(537,000)	-	(902,414)	(1,439,414)
Proceeds from long-term debt		90,185		90,185
<b>Total other financing sources and uses</b>	<b>388,332</b>	<b>90,185</b>	<b>286,668</b>	<b>765,185</b>
<b>Net change in fund balances</b>	<b>(248,619)</b>	<b>1,627,291</b>	<b>677,599</b>	<b>2,056,271</b>
<b>Fund Balance - Beginning</b>	<b>11,712,126</b>	<b>43,558,312</b>	<b>29,878,414</b>	<b>85,148,852</b>
<b>Fund Balance - Ending</b>	<b>\$ 11,463,507</b>	<b>\$ 45,185,603</b>	<b>\$ 30,556,013</b>	<b>\$ 87,205,123</b>

See accompanying notes to financial statements.

## City of Morgan Hill, California

## Comprehensive Annual Financial Report

Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2003

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Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances-total governmental funds	\$ 2,056,271
Governmental funds report capital outlay as expenditures. This is the amount of capital outlay that has been recorded as an asset on the statement of net assets.	18,641,829
Governmental funds report the payment of debt service as an expenditure. Payments for debt service reduce liabilities on the statement of net assets.	2,689,486
The value of donated infrastructure assets are recognized as a revenue on the statement of activities.	5,286,768
Revenues in the statement of activities that do not provide current financial resources are reported as a revenue, instead of a liability, on the statement of activities.	9,971,850
Liabilities for expenditures, even though not requiring the use of current financial resources, are reported on the statement of activities.	(390,568)
Depreciation expense is reported in connection with all of a governments depreciable assets.	(1,187,821)
Revenues involving parties outside the primary government need to be included as part of revenues for governmental activities in the government-wide financial statements.	112,753
Any net profit from Internal Service Funds need to be removed from the government wide statement of activities	<u>254,520</u>
Change in net assets of governmental activities	<u>\$ 37,435,088</u>

City of Morgan Hill  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund balances - Budget and Actual  
For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
<b>Revenues</b>				
Property taxes and special assessments	\$ 2,008,000	\$ 2,008,000	\$ 2,315,105	\$ 307,105
Sales taxes	5,330,000	5,330,000	4,636,927	(693,073)
Franchise, hotel and other taxes	2,365,400	2,365,400	2,401,341	35,941
Licenses and permits	209,450	209,450	196,209	(13,241)
Funding from other governmental agencies	2,193,300	2,193,300	2,198,368	5,068
Charges for current services	2,314,576	2,314,576	2,221,246	(93,330)
Investment income and rentals	724,400	739,400	451,852	(287,548)
Fines, forfeitures and other revenues	175,950	175,950	330,792	154,842
<b>Total revenues</b>	<b>15,321,076</b>	<b>15,336,076</b>	<b>14,751,840</b>	<b>(584,236)</b>
<b>Expenditures:</b>				
General government				
Council	185,817	185,817	177,131	8,686
City Attorney	665,556	898,176	850,395	47,781
City Manager	391,068	444,423	354,978	89,445
Human Resources	633,811	634,525	568,207	66,318
City Clerk	421,539	429,098	333,343	95,755
Finance	1,075,089	1,094,207	1,007,045	87,162
Medical services	120,000	120,000	120,000	-
Total General Government	3,492,880	3,806,246	3,411,099	395,147
Public Safety				
Police	6,353,271	6,392,626	5,994,640	397,986
Fire	3,623,938	3,623,938	3,623,938	-
Total Public Safety	9,977,209	10,016,564	9,618,578	397,986
Culture and recreation				
Recreation	1,166,406	1,215,056	1,155,195	59,861
Cable TV/Comm.& Marketing	158,738	173,348	161,260	12,088
Park Maintenance	826,483	844,230	847,409	(3,179)
Total Culture and recreation	2,151,627	2,232,634	2,163,864	68,770
Capital Outlay	350,255	453,654	274,910	178,744
Debt Service:				
Interest and fiscal charges	-	-	-	-
Total Debt service	-	-	-	-
<b>Total Expenditures</b>	<b>15,971,971</b>	<b>16,509,098</b>	<b>15,468,451</b>	<b>1,040,647</b>
Excess (deficiency) of revenues over (under) expenditures	(650,895)	(1,173,022)	(716,611)	456,411
Other Financing sources (uses):				
Operating transfers in	925,332	925,332	925,332	-
Operating transfers (out)	(537,000)	(537,000)	(537,000)	-
Total other financing sources (uses)	388,332	388,332	388,332	-
Net change in fund balances	(262,563)	(784,690)	(328,279)	456,411
Adjustments to budgetary basis			79,660	79,660
Fund Balances-Beginning	11,712,126	11,712,126	11,712,126	
<b>Fund Balances-Ending</b>	<b>\$ 11,449,563</b>	<b>\$ 10,927,436</b>	<b>\$ 11,463,507</b>	<b>\$ 536,071</b>



City of Morgan Hill, California  
Statement of Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

	Business-Type Activities		
	Enterprise Funds		
	Sewer Operations	Sewer Mitigation	Water Operations
<b>Assets</b>			
Current assets:			
Pooled cash and investment	\$ 11,604,269	\$ -	\$ 6,665,161
Restricted pooled cash and investments		4,903,606	
Cash with fiscal agents	1,862,703		390,413
Receivables:			
Accrued interest	101,059	25,279	40,430
Other accounts receivable	684,668	6,565	1,026,785
Prepaid expenses			
Total current assets	<u>14,252,699</u>	<u>4,935,450</u>	<u>8,122,789</u>
Noncurrent assets:			
Fixed assets, net	18,106,416	3,206,523	28,858,792
Sewer capacity rights	20,400,942		
Total noncurrent assets	<u>38,507,358</u>	<u>3,206,523</u>	<u>28,858,792</u>
<b>Total Assets</b>	<u>52,760,057</u>	<u>8,141,973</u>	<u>36,981,581</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	289,154	241,651	329,787
Accrued liabilities	391,618	128,212	62,097
Custover and other deposits			38,186
Current obligations for:			
Bonds payable			166,607
Capacity rights payable	1,115,000		
Compensated absences	589		6,482
Total current liabilities	<u>1,796,361</u>	<u>369,863</u>	<u>603,159</u>
Noncurrent liabilities			
Long term obligations for:			
Bonds payable			4,861,483
Compensated absences	41,377		82,477
Capacity rights payable	21,569,875		
Total noncurrent liabilities	<u>21,611,252</u>	<u>-</u>	<u>4,943,960</u>
<b>Total Liabilities</b>	<u>23,407,613</u>	<u>369,863</u>	<u>5,547,119</u>
Net Assets:			
Invested in capital assets	16,896,106	3,206,523	23,914,832
Restricted for Capital Expansion		4,565,587	
Unrestricted	12,456,338		7,519,630
<b>Total Net Assets</b>	<u>\$ 29,352,444</u>	<u>\$ 7,772,110</u>	<u>\$ 31,434,462</u>

See accompanying notes to financial statements.

City of Morgan Hill, California  
Statement of Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Water Mitigation	Totals	
<b>Assets</b>			
Current assets:			
Pooled cash and investment	\$ -	\$ 18,269,430	\$ 5,585,796
Restricted pooled cash and investments	124,965	5,028,571	40,000
Cash with fiscal agents		2,253,116	
Receivables:			
Accrued interest	724	167,492	20,211
Other accounts receivable		1,718,018	10,927
Prepaid expenses		-	
Total current assets	125,689	27,436,627	5,656,934
Noncurrent assets:			
Fixed assets, net	3,386,162	53,557,893	627,065
Sewer capacity rights		20,400,942	
Total noncurrent assets	3,386,162	73,958,835	627,065
<b>Total Assets</b>	<b>3,511,851</b>	<b>101,395,462</b>	<b>6,283,999</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	240,572	1,101,164	94,221
Accrued liabilities		581,927	950,338
Custober and other deposits		38,186	
Current obligations for:			
Bonds payable		166,607	
Capacity rights payable		1,115,000	
Compensated absences		7,071	4,071
Total current liabilities	240,572	3,009,955	1,048,630
Noncurrent liabilities			
Long term obligations for:			
Bonds payable		4,861,483	
Compensated absences		123,854	49,692
Capacity rights payable		21,569,875	
Total noncurrent liabilities	-	26,555,212	49,692
<b>Total Liabilities</b>	<b>240,572</b>	<b>29,565,167</b>	<b>1,098,322</b>
Net Assets:			
Invested in capital assets	3,271,279	47,288,740	577,373
Restricted for Capital Expansion		4,565,587	
Unrestricted		19,975,968	4,608,304
<b>Total Net Assets</b>	<b>\$ 3,271,279</b>	<b>\$ 71,830,295</b>	<b>\$ 5,185,677</b>

See accompanying notes to financial statements.

**City of Morgan Hill, California**

**Comprehensive Annual Financial Report**

**Statement of Revenues, Expenditures & Changes in Fund Balances**

**Proprietary Funds**

**For the Year Ended June 30, 2003**

	Business-Type Activities		
	Enterprise Funds		
	Sewer Operations	Sewer Mitigation	Water Operations
<b><u>Operating Revenues:</u></b>			
Charges for current services	\$ 5,446,583	\$ 753,345	\$ 6,184,207
Supplemental rent from operations			
Other operating income			
<b>Total Operating Revenues</b>	<b><u>5,446,583</u></b>	<b><u>753,345</u></b>	<b><u>6,184,207</u></b>
<b><u>Operating expenses:</u></b>			
Salaries and benefits	880,277		1,356,985
Claims and insurance premiums	19,030		912,023
Operations and maintenance	2,772,177		1,978,163
Depreciation	852,815	147,288	1,147,373
Amortization of sewer capacity rights	944,917		
Administrative charges	278,476	4,455	433,336
<b>Total Operating expenses</b>	<b><u>5,747,692</u></b>	<b><u>151,743</u></b>	<b><u>5,827,880</u></b>
Operating Income	(301,109)	601,602	356,327
Nonoperating revenues (expense):			
Investment earnings	36,455	182,445	303,197
Interest (expense)	(587,541)	(256,272)	(385,442)
Total nonoperating revenue (expense)	<u>(551,086)</u>	<u>(73,827)</u>	<u>(82,245)</u>
Income (loss) before operating transfers	(852,195)	527,775	274,082
Capital Contributions	468,800		695,723
Operating transfers in	500,000		1,373,877
Operating transfers (out)	<u>(891,377)</u>		<u>(2,077,500)</u>
Change in net assets	(774,772)	527,775	266,182
Total Net Assets-Beginning	<u>30,127,216</u>	<u>7,244,335</u>	<u>31,168,280</u>
<b>Total Net Assets-Ending</b>	<b><u>\$ 29,352,444</u></b>	<b><u>\$ 7,772,110</u></b>	<b><u>\$ 31,434,462</u></b>

See accompanying notes to financial statements.

**City of Morgan Hill, California**

**Comprehensive Annual Financial Report**

**Statement of Revenues, Expenditures & Changes in Fund Balances**

**Proprietary Funds**

**For the Year Ended June 30, 2003**

	<b>Business-Type Activities Enterprise Funds</b>		<b>Governmental Activities Internal Service Funds</b>
	<b>Water Mitigation</b>	<b>Totals</b>	
<b>Operating Revenues:</b>			
Charges for current services	\$ 162,865	\$ 12,547,000	\$ 3,551,034
Supplemental rent from operations			9,784
Other operating income			
<b>Total Operating Revenues</b>	<b>162,865</b>	<b>12,547,000</b>	<b>3,560,818</b>
<b>Operating expenses:</b>			
Salaries and benefits		2,237,262	1,010,121
Claims and insurance premiums		931,053	845,279
Operations and maintenance		4,750,340	850,961
Depreciation	123,325	2,270,801	463,469
Amortization of sewer capacity rights		944,917	
Administrative charges	815	717,082	176,484
<b>Total Operating expenses</b>	<b>124,140</b>	<b>11,851,455</b>	<b>3,346,314</b>
<b>Operating Income</b>	<b>38,725</b>	<b>695,545</b>	<b>214,504</b>
<b>Nonoperating revenues (expense):</b>			
Investment earnings	15,206	537,303	109,280
Interest (expense)		(1,229,255)	-
<b>Total nonoperating revenue (expense)</b>	<b>15,206</b>	<b>(691,952)</b>	<b>109,280</b>
<b>Income (loss) before operating transfers</b>	<b>53,931</b>	<b>3,593</b>	<b>323,784</b>
<b>Capital Contributions</b>			
Operating transfers in	460,000	2,333,877	-
Operating transfers (out)		(2,968,877)	(40,000)
Change in net assets	513,931	(631,407)	283,784
<b>Total Net Assets-Beginning</b>	<b>2,757,348</b>	<b>71,297,179</b>	<b>4,901,893</b>
<b>Total Net Assets-Ending</b>	<b>\$ 3,271,279</b>	<b>\$ 71,830,295</b>	<b>\$ 5,185,677</b>

See accompanying notes to financial statements.

**City of Morgan Hill, California**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**

**Comprehensive Annual Financial Report**

	<u>Sewer</u>	<u>Sewer Mitigation</u>	<u>Water</u>
<b>Cash Flows from Operating activities</b>			
Receipts from customers and users	\$ 5,539,073	\$ 859,986	\$ 6,142,108
Receipts from interfund services			
Payments for supplies and services	(2,540,854)	(220,309)	(2,843,728)
Payments to employees	(878,871)		(1,332,911)
Payments for interfund services	(330,601)		(508,480)
Net cash provided by operating activities	<u>1,788,747</u>	<u>639,677</u>	<u>1,456,989</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers to other funds	(391,377)		(703,623)
Advances from other funds			
Net cash provided (used) by noncapital and financing activities	<u>(391,377)</u>		<u>(703,623)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Proceeds from debt			
Capital contributions			
Purchase of capital assets	(25,631)		(448,650)
Acquisition and construction of capital assets	(1,289,698)	(1,792,311)	(1,665,470)
Principal paid on debt	(612,682)		(160,512)
Interest paid on debt	(587,541)	(256,272)	(385,442)
Capital lease down payment			
Proceeds from sales of capital assets			
Net cash provided by capital and related financing activities	<u>(2,515,552)</u>	<u>(2,048,583)</u>	<u>(2,660,074)</u>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale and maturity of investments			
Purchase of investments			
Interest earnings	(2,138)	188,508	308,599
Net cash provided by investing activities	<u>(2,138)</u>	<u>188,508</u>	<u>308,599</u>
Net increase in cash and cash equivalents	(1,120,320)	(1,220,398)	(1,598,109)
Cash and cash equivalents, July 1, 2002	<u>14,599,889</u>	<u>6,124,004</u>	<u>8,653,683</u>
<b>Cash and Cash equivalents, June 30, 2003</b>	<u>\$ 13,479,569</u>	<u>\$ 4,903,606</u>	<u>\$ 7,055,574</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>			
Operating income	\$ (301,109)	\$ 601,602	\$ 356,327
Adjustments to reconcile:			
Depreciation expense	852,815	147,288	1,147,373
Amortization of sewer capacity rights	944,917		
(Increase) decrease in accounts receivable	92,490	(1,313)	(42,099)
(Increase) decrease in notes receivables		107,954	
(Increase) decrease in due from other funds			
Increase (decrease) in allowance for uncollectable accounts			
Increase (decrease) in accounts payable	198,228	(215,854)	(28,686)
Increase (decrease) in compensated absences	1,406		24,074
Increase (decrease) in due to other funds			
Total adjustments	<u>2,089,856</u>	<u>38,075</u>	<u>1,100,662</u>
Net cash provided by operating activities	<u>\$ 1,788,747</u>	<u>\$ 639,677</u>	<u>\$ 1,456,989</u>

See accompanying notes to financial statements.

**City of Morgan Hill, California**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2003**

**Comprehensive Annual Financial Report**

	<b>Water Mitigation</b>	<b>Total</b>
<b>Cash Flows from Operating activities</b>		
Receipts from customers and users	\$ 162,865	\$ 12,704,032
Receipts from interfund services		
Payments for supplies and services	134,861	(5,470,029)
Payments to employees		(2,211,782)
Payments for interfund services		(839,082)
Net cash provided by operating activities	<u>297,726</u>	<u>4,183,139</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Transfers to other funds	460,000	(635,000)
Advances from other funds		
Net cash provided (used) by noncapital and financing activities	<u>460,000</u>	<u>(635,000)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from debt		
Capital contributions		
Purchase of capital assets		(474,281)
Acquisition and construction of capital assets	(1,539,181)	(6,286,660)
Principal paid on debt		(773,194)
Interest paid on debt		(1,229,255)
Capital lease down payment		
Proceeds from sales of capital assets		
Net cash provided by capital and related financing activities	<u>(1,539,181)</u>	<u>(8,763,390)</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale and maturity of investments		
Purchase of investments		
Interest earnings	18,908	513,877
Net cash provided by investing activities	<u>18,908</u>	<u>513,877</u>
Net increase in cash and cash equivalents	(762,547)	(4,701,374)
Cash and cash equivalents, July 1, 2002	<u>887,512</u>	<u>30,265,088</u>
<b>Cash and Cash equivalents, June 30, 2003</b>	<u>\$ 124,965</u>	<u>\$ 25,563,714</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>		
Operating income	\$ 38,725	\$ 695,545
Adjustments to reconcile:		
Depreciation expense	123,325	2,270,801
Amortization of sewer capacity rights		944,917
(Increase) decrease in accounts receivable		49,078
(Increase) decrease in notes receivables		107,954
(Increase) decrease in due from other funds		
Increase (decrease) in allowance for uncollectable accounts		
Increase (decrease) in accounts payable	135,676	89,364
Increase (decrease) in compensated absences		25,480
Increase (decrease) in due to other funds		
Total adjustments	<u>259,001</u>	<u>3,487,594</u>
Net cash provided by operating activities	<u>\$ 297,726</u>	<u>\$ 4,183,139</u>

See accompanying notes to financial statements

City of Morgan Hill, California  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2003

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Comprehensive Annual Financial Report

	<u>Agency Fund</u>
<u>Assets:</u>	
Restricted pooled cash and investments	\$ 4,102,453
Cash with fiscal agents	1,841,423
Accounts receivable	40,980
<b>Total Assets</b>	<u><b>\$ 5,984,856</b></u>
 <u>Liabilities</u>	
Accounts payable	\$ 96,548
Customer and other deposits	5,888,311
<b>Total liabilities</b>	<u><b>\$ 5,984,859</b></u>

See accompanying notes to financial statements.

**City of Morgan Hill, California**  
**Statement of Changes in Assets and Liabilities**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2003**

**Comprehensive Annual Financial Report**

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance July 1, 2003</u>
<b><u>Special Deposits</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 748,397	\$ 317,888	\$ 265,713	\$ 800,572
Accounts receivable	4,908	6,337	6,797	4,448
Total Assets	753,305	324,225	272,510	805,020
<b><u>Liabilities</u></b>				
Accounts payable	25,003	309,423	237,878	96,548
Customer and other deposits	728,302	14,802	34,632	708,472
Total liabilities	753,305	324,225	272,510	805,020
<b><u>Morgan Hill Business Ranch A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	2,538,023	1,839,147	2,047,215	2,329,955
Cash with fiscal agents	894,101	27,540	34,737	886,904
Accounts receivable	144,291	33,304	144,735	32,860
Total Assets	3,576,415	1,899,991	2,226,687	3,249,719
<b><u>Liabilities</u></b>				
Customer and other deposits	3,576,415	1,899,991	2,226,687	3,249,719
Total liabilities	3,576,415	1,899,991	2,226,687	3,249,719
<b><u>Tennant Business Park A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	307,309	52,028	836	358,501
Accounts receivable	11,979	2,418	11,979	2,418
Total Assets	319,288	54,446	12,815	360,919
<b><u>Liabilities</u></b>				
Customer and other deposits	319,288	54,446	12,815	360,919
Total liabilities	319,288	54,446	12,815	360,919
<b><u>Madrone Business Park A.D.</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	698,243	1,039,781	1,124,599	613,425
Cash with fiscal agent	1,241,627	11,670	298,778	954,519
Accounts receivable	2,814	1,600	3,160	1,254
Total Assets	1,942,684	1,053,051	1,426,537	1,569,198
<b><u>Liabilities</u></b>				
Customer and other deposits	1,942,684	1,053,051	1,426,537	1,569,198
Total liabilities	1,942,684	1,053,051	1,426,537	1,569,198
<b><u>Total Agency Funds</u></b>				
<b><u>Assets:</u></b>				
Restricted pooled cash and investments	\$ 4,291,972	\$ 3,248,844	\$ 3,438,363	\$ 4,102,453
Cash with fiscal agents	2,135,728	39,210	333,515	1,841,423
Accounts receivable	163,992	43,659	166,671	40,980
Total Assets	\$ 6,591,692	\$ 3,331,713	\$ 3,938,549	\$ 5,984,856
<b><u>Liabilities</u></b>				
Accounts payable	25,003	309,423	237,878	96,548
Customer and other deposits	6,566,689	3,022,290	3,700,671	5,888,308
Total liabilities	\$ 6,591,692	\$ 3,331,713	\$ 3,938,549	\$ 5,984,856

See accompanying notes to financial statements.



1. **DEFINITION OF THE REPORTING ENTITY**

The City of Morgan Hill, California, (the City) was incorporated in November 1906 as a general law city and operates under a Council-Manager form of government.

As required by Statement No. 14 of the Governmental Accounting Standards Board (GASB), these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year end.

**Blended Component Units.** The Morgan Hill Wastewater Facilities Financing Corporation (the Financing Corporation) and the Redevelopment Agency of the City of Morgan Hill (the Agency) are governed by boards which are substantially the same as the City's governing body and serve the City exclusively. The Morgan Hill Wastewater Facilities Financing Corporation was established in 1988 to facilitate the issuance of debt for capital improvements. The Redevelopment Agency operates under California Redevelopment Law and provides business and housing activities. Both component units have been blended into the City's basic financial statements. The activities of the Financing Corporation are reported as an Enterprise Fund and the Redevelopment Agency's activities are reported as a Capital Project Fund on the City's basic financial statements.

**Discretely Presented Component Units.** The Morgan Hill Corporation Yard Commission functions for the benefit of the City and the Morgan Hill Unified School District. The Commission is equally comprised of members from each governing body and one member at large. The Commission was formed in 1975 to facilitate the operation of a joint tenancy between the school district and the City. The activities of the Commission are included in the City's basic financial statements as a discretely presented component unit because the board is not substantially the same as the primary government's, nor does it operate exclusively, nor almost exclusively, for the benefit of the City.

The Financing Corporation does not issue separate financial statements.

Complete financial statements for the Agency and the Commission may be obtained from the City at the following address:

City of Morgan Hill  
Attention: Finance Department  
17555 Peak Avenue  
Morgan Hill, CA 95037

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### (a) Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City reports the following fund types:

**Governmental Fund Types**

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and agency funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income.

**General Fund**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) that are legally restricted to expenditures for specified purposes.

**Debt Service Funds**

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**Capital Project Funds**

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund and Proprietary Fund Types).

**Proprietary Fund Types**

Proprietary funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income. Proprietary Fund Types include Enterprise Funds and Internal Service Funds:

**Enterprise Funds**

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Internal Service Funds**

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost-reimbursement basis.

**Fiduciary Fund Types**

**Agency Funds**

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

**(b) Major and Non-major Funds**

The City reports major funds on the government-wide financial statements separately from other funds. Major funds can be defined as any fund the City believes to be of particular importance to financial statement users. At a minimum, the general fund and any fund that meets both of the following criteria *must* be reported as a major fund:

Ten percent criterion. An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

Five percent criterion. An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise fund of any one of the items for which it met the 10 percent criterion.

Funds that do not meet the above criteria are considered non-major funds and data for these funds is reported in the aggregate under one column, *other governmental funds*, on the government-wide financial statements.

Proprietary funds also report major and non-major funds in the same manor as governmental. GAAP (Generally Accepted Accounting Principles) also indicate that internal service funds are never reported as major funds. All non-major proprietary fund data are aggregated and reported under one column, *other enterprise funds*, on the government-wide financial statements. The City reports all enterprise funds as major funds.

**(c) Budgetary Information**

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all Governmental and Proprietary Fund Types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as departments, such as Finance, Parks or Police. Council approval is required for additional appropriations or transfers between departments (activities). Unencumbered appropriations lapse at the end of each fiscal year.

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the preliminary budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any activity (department) must be approved by the City Council. Expenditures and encumbrances may not legally exceed budgeted appropriations at the department level. Budgeted amounts presented for the general fund include the original adopted budget, the final amended budget and comparison to actual expenditures.

(d) **Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all Governmental Fund Types. Encumbrances outstanding at year-end are reappropriated in the next year and reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(e) **Cash and Investments**

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately.

The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by City policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

(f) Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (streets, curbs and gutters, water and sewer systems, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$500 or more and estimated useful life of at least three years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value, or engineering estimates in the case of infrastructure, at the date of donation.

The City has included the current year additions to infrastructure assets but has chosen the option of postponing reporting prior year's infrastructure in order to inventory, evaluate and value to the best of our abilities those assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value.

Property, plant and equipment of the primary government and its component units are depreciated using the straight-line method over the following estimated useful lives:

Buildings and land improvements	30-50 years
Infrastructure	20-30 years
Machinery, equipment and vehicles	5-20 years

(g) Sewer Capacity Rights

Capacity rights are capitalized in the Sewer Enterprise Fund. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility. Sewer capacity rights will be fully amortized in 2023.

(h) Special Assessment Districts for which the City is Obligated in Some Manner

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

(i) **Compensated absences and Post-Employment Benefits**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick and compensatory time off. There is no liability for unused sick leave as the City has no obligation to pay for any accumulated balance when employees separate from employment. The City does recognize a current liability in proprietary funds for 25% of the current year unused sick leave accrual due to bargaining group agreements to pay this amount if unused during the year. All vacation and compensatory time are accrued in the government-wide and proprietary fund financial statements.

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 10).

The City participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The City has chosen to contribute under the unequal contribution option. The unequal contribution option requires an initial City contribution for each retiree of \$1 per month, with annual increases of at least 5 percent of the City's monthly contribution of \$16 toward the premium for each active employee, until such time as the contribution for employees and retirees are equal.

(j) **Restricted Assets**

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

(k) **Interfund Transactions**

Interfund transactions are recorded as transfers on the fund financial statements which result in interfund receivables and payables. Balances reported in the fund financial statements are eliminated for the government-wide financial statements. There were no interfund receivables or payables at June 30, 2003.

Interfund transfers reported on the fund financial statements are summarized as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfer From	Transfer To	Amount
Water Operations	Water Impact	460,000
General Fund	Streets	377,000
Sewer Operations	Streets	200,000
Water Operations	Streets	400,000
Public Safety	General Fund	270,000
Community & Cultural Center	General Fund	520,332
Park Maintenance	General Fund	100,000
Sewer Operations	General Fund	17,500
Water Operations	General Fund	17,500
General Fund	General Plan	60,000
Park Impact	General Plan	3,291
Traffic Impact	General Plan	3,291
Housing Mitigation	Senior Housing	5,500
General Fund	Community & Cultural Center	100,000
Information Technology	Employee Programs	40,000
Sewer Operations	Sewer Capital Improvement	500,000
Sewer Operations	Water Operations	173,877
Water Operations	Water Capital Improvement	1,200,000

(1) Property Tax and Special Assessment Levy, Collection, and Maximum Rates

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

Date Category	Secured	Unsecured
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (for February)	August 31



2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

(m) **Unbilled Service Receivables**

The city bills for water and sewer services on a monthly basis. All amounts not billed at year end are accrued and reflected as accounts receivable in the appropriate funds.

(n) **Income Taxes**

The City and its related entities fall under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

(o) **Investment in Properties Held for Resale**

The Agency purchases housing units and other properties for redevelopment within the Agency's project area. The costs of agency properties held for resale are capitalized in the Redevelopment Agency Capital Project Fund as "investment in properties held for resale," at the lower of acquisition cost or net realizable value.

(p) **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) **Implementation of GASB 34, 37, and 38**

For the fiscal year ending June 30 2003, the City is reporting in the new format as required under Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. The City is also required to implement GASB Statement 37, which is an amendment to 34 and GASB Statement 38, which modifies, established, and rescinds certain note disclosures

(r) **New/Closed Funds**

New Fund. One fund, the Employee Assistance Program, was created during the fiscal year ending June 30, 2003. This fund was created to support various employee financial assistance programs. The first program, the employee computer loans, makes technology use affordable for all employees, encourages the use of technology outside of the workplace, increases the understanding and potential of technology, and improves skills in the workplace by encouraging use at home. Funds will be used on a revolving basis, and any future loans will be made from the repayments of previous loans.

### 3. BUDGETARY INFORMATION

#### Budgetary Results Reconciled to Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of operations for the general fund are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and GAAP basis is that year-end encumbrances are recognized as the equivalent of expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until recorded as actual expenditures.

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis are listed below for the general fund:

	General Fund
Expenditures, GAAP basis	\$15,388,791
Encumbrances	79,660
Expenditures, budgetary basis	\$15,468,451

### 4. CASH AND INVESTMENTS

#### Description of amounts reported on City's Financial Statements

The City maintains a cash and investment pool in which all funds and component units participate. Certain bonds require that certain amounts be held by a fiscal agent and/or the City to secure principal and interest payments. Such amounts are classified as restricted cash and investments or as cash with fiscal agent. Each fund type's portion of this pool is displayed on the government-wide financial statements as follows:

	Governmental	Business Type	Fiduciary Funds
Pooled Cash & Investments	57,220,085	18,269,430	4,102,453
Pooled Restricted Cash & Investments	15,137,053	5,028,571	--
Cash with Fiscal Agents	--	2,253,116	40,980
<b>Total Cash &amp; Investments</b>	<b>72,357,138</b>	<b>25,551,117</b>	<b>4,143,433</b>

The Corporation Yard Commission has cash and investments totaling \$93,086. There is no restricted cash or cash with fiscal agents. The Corporation Yard Commission has \$41,568 in cash deposits and \$51,518 invested in the Local Agency Investment Fund (LAIF).

The investments made by the City Treasurer are limited to those allowable under State statutes and the City's Investment Policy, approved by Council on September 15, 1999 and re-approved on May 28, 2003, which is more conservative than that allowed by State statute. Under provisions of this policy, the City is authorized to invest in the following types of investments:

4. CASH AND INVESTMENTS (continued)

Certificates of Deposits	Government Agency Securities
Treasury Bills and Notes	Passbook Savings Accounts
Dreyfuss Treasury Cash Mgmt	State of California Local Agency Investment Fund (LAIF)

A small portion of the City's funds held by LAIF are invested in structured notes and asset-backed securities. A description of these types of investments are:

- (a) Structured Notes - debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or have embedded forwards or options.
- (b) Asset-backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

**Cash Deposits**

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2003, the carrying amount of the City's deposits was \$4,647,120 and the bank balances were \$5,569,299. The difference between the carrying amount and the bank balances is due to deposits in transit and outstanding checks in the general operating account.

The City's bank balances at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the City's name

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

As of June 30, 2003, the City's and Commission's bank balances are categorized as follows:

Category 1	\$100,000
Category 2	4,547,120
<b>Total Cash Deposit</b>	<b>\$4,647,120</b>

4. CASH AND INVESTMENTS (continued)

Investments

The City's investments at year-end are categorized below, according to the guidelines of GASB Statement No. 3 to give an indication of the level of custodial credit risk assumed by the City as of June 30, 2003.

Category 1 - Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

Uncategorized - Certain investments are not subject to categorization under GASB Statement No. 3 and are identified as "Not Required to be Categorized."

Investments in LAIF and money market funds are not categorized as they are invested in investment pools and are thus exempt from categorization requirements. Investments in LAIF are highly liquid, and deposits may usually be converted to cash within twenty-four hours without loss of interest.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the City's pool share in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool.

At June 30, 2003, the City's pooled investments, including both restricted and unrestricted balances, classified by risk category consisted of the following:

	<u>Category 3</u>	<u>Not Required to be Categorized</u>	<u>Fair Value</u>
Money Market		\$4,211,826	\$4,211,826
Federal Securities	\$31,494,148		31,738,805
Local Agency Investment Fund		58,714,655	58,881,773
<b>Total Pooled Investments</b>	<b>\$31,494,148</b>	<b>\$62,926,481</b>	<b>\$94,832,404</b>

The Corporation Yard Commission only had investments in the Local Agency Investment Fund and is therefore not required to be categorized. The balance of \$51,372 had a fair market of \$51,518 at June 30, 2003.

The maturities of investments at June 30, 2003, are as follows:

4. CASH AND INVESTMENTS (continued)

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$63,093,599
One to two years	1,505,625
Two to three years	—
Three to five years	30,233,180
<b>Total Investments</b>	<b>\$94,832,404</b>

The Corporation Yard Commission's balance in LAIF has a fair market value of \$51,518 and a current maturity classification.

At June 30, 2003, the City's cash with fiscal agents classified by risk category consisted of the following:

	<u>Category 3</u>	<u>Not Required to be Categorized</u>	<u>Fair Value</u>
Bank of New York:			
Cash Management Account		\$13,302	\$13,302
U.S. Treasury Bonds	\$1,849,402		1,849,402
U.S. Bank:			
First American Treasury Obligation	2,231,835		2,231,835
<b>Total Cash with Fiscal Agents</b>	<b>\$4,801,237</b>	<b>\$13,302</b>	<b>\$4,094,539</b>

**Fair Value of Investments**

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Pools, investments were stated at fair value using the aggregate method as follows:

Fair Value of investments at June 30, 2003	\$103,618,213
Less: Net cost of investments purchased/sold	(1,080,353)
Less: Fair Value of investments at July 1, 2002	(102,210,858)
<b>Change in Fair Value Investments</b>	<b>\$327,002</b>

Investment income is comprised of the following:

Interest including realized gains on sale of investments	\$10,592,316
Net change in fair value of investments	327,002
<b>Total Investment Income</b>	<b>\$10,919,318</b>

**External Investment Pool**

The City invests in LAIF, a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

4. CASH AND INVESTMENTS (continued)

The City valued its investments in LAIF as of June 30, 2003, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate amortized cost by total aggregate fair value.

Accordingly, as of June 30, 2003, the City's investments in LAIF at fair value amounted to \$58,881,773 using a LAIF fair value factor of 01.00284628.

5. CAPITAL ASSETS

The following is a summary of governmental activities capital assets at June 30, 2003:

Fixed Asset Category	Carrying Value
Land	\$23,560,224
Building and Improvements	22,438,616
Machinery, Equipment & Vehicles	622,947
Infrastructure	6,592,963
Construction in progress	5,802,477
<b>Total General Fixed Assets</b>	<b>\$58,297,227</b>

Changes in governmental activities capital assets were as follows:

Fixed Asset Category	Beginning Balance July 1, 2003	Additions	Retirements & Transfers	Accumulated Depreciation	Ending Balance June 30, 2003
Land	\$22,697,581	\$862,643			\$23,560,224
Buildings & Improvements	10,460,114		\$ 19,639,687	\$(7,661,185)	22,438,616
Machinery, Equipment & Vehicles	2,223,308	219,720		(1,820,081)	622,947
Infrastructure		5,286,768	1,442,262	(136,067)	6,592,963
Construction in Progress	9,465,087	16,699,339	(21,081,949)		5,082,477
<b>Total General Fixed Assets</b>	<b>\$44,846,090</b>	<b>\$23,068,470</b>	<b>-</b>	<b>(\$9,617,333)</b>	<b>\$58,297,227</b>

As of June 30, 2003, fixed assets of business type activities on the government-wide financial statements consisted of:

Fixed Asset Category	Business-Type Funds
Land, Buildings & Improvements	\$114,088,986
Machinery, Equipment & Vehicles	1,917,518
Infrastructure	1,303,349
Construction in Progress	3,679,962
<b>Total</b>	<b>\$120,989,815</b>
Less Accumulated depreciation	(47,030,980)
<b>Fixed Assets, Net</b>	<b>\$73,958,835</b>

5. CAPITAL ASSETS (continued)

A reconciliation of fixed assets for business type activities are listed below:

Enterprise Funds	
Fixed Assets, Net	\$53,557,893
Sewer Capacity Rights	20,400,942
<b>Totals</b>	<b>\$73,958,835</b>

6. LOANS RECEIVABLE

The City's and Agency's loans receivable as of June 30, 2003 total \$28,997,859, consisting of the following types:

Description	Amount
CDBG Loans	\$524,329
Housing Rehabilitation Loans	1,410,708
Jasmine Way	555,837
Sunrise Meadows	3,205,372
San Pedro Gardens	1,331,084
Abbott Critical Care Systems	843,632
Morgan Hill Ranch Family Housing	3,229,371
Village Avante Apartments	1,674,031
Village Avante Apartments 2	697,745
Villa Ciolino	2,691,727
Church Street	3,463,330
Murphy Ranch	5,606,880
Other Loans	3,763,813
<b>Total</b>	<b>\$28,997,859</b>

(a) CDBG Loans/Housing Rehabilitation Loans

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant funds (CDBG) and Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, primarily for seniors and very low income families. Repayments received from the outstanding loans are used to make additional housing rehabilitation loans. As of June 30, 2003, the City had \$524,329 of outstanding CDBG loans and the Agency had \$1,410,708 in outstanding home improvement loans.

**6. LOANS RECEIVABLE (continued)**

**(b) Jasmine Way**

The Agency also issued "sweat equity" loans in 1989, secured by deeds of trust, to 15 low and moderate income families to purchase homes. Interest accrues at the rate of 7% annually for 10 years after the execution of the loan. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 10 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2003, the City had \$555,837 of these loans outstanding in its Redevelopment Agency Capital Project Fund.

**(c) Sunrise Meadows**

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The Agency purchased the project (including land and all entitlements) for \$1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from \$50,000 to \$100,000 each. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2003, the Agency had \$3,205,372 of loans outstanding in its Capital Project Fund.

**(d) San Pedro Gardens**

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The Agency issued a loan for \$825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

Of the total loan, \$400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the Agency to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the principal and interest will be forgiven each year and the loan will be totally canceled at year 30. These loans accrue interest at 10% compounded annually. As of June 30, 2002, the balance for these loans was \$890,058.

The remaining \$425,000 of the loan accrues simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue interest and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. At June 30, 2003, the balance for this loan was \$441,026.



**6. LOANS RECEIVABLE (continued)**

**(e) Abbott Critical Care Systems**

On September 20, 1995, the Agency approved an agreement with Abbott Critical Care Systems (Abbott), which offered Abbott \$2.275 million in financial incentives, which included right-of-way purchase and traffic fee credits, to move their laboratories to the Morgan Hill Business Ranch within the City limits. In addition, the agency approved a loan, secured by a deed of trust, in the amount of \$610,000 to Abbott with a 5% interest rate. If certain conditions are met, according to the loan agreement, up to 80% of the accrued interest will be forgiven. At June 30, 2003, the loan has accrued interest of \$233,632 bringing the loan balance to \$843,632.

**(f) Morgan Hill Ranch Family Housing**

The Morgan Hill Ranch Family Housing Project (Project) consists of residential rental units and a day care center in the Project area. The Agency made a principal predevelopment loan of \$10,000 in fiscal year 1995/1996 and principal development loan of \$610,579 in fiscal year 1996/1997. The Agency provided an additional loan for land acquisition and construction costs in the amount of \$2,524,585 in fiscal year 1997/1998. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2003, the loans have accrued interest of \$109,207, bringing the loan balance to \$3,229,371. The Association began making payments on its loans on the first May 1 following the calendar year in which the Morgan Hill Ranch Family Housing units became occupied. All loans are secured by deeds of trust.

**(g) Village Avante Apartments**

On June 1, 1999, the Agency entered into an agreement with Don Avante Family Homes, Inc. to lend the lesser of \$1,540,000 or so much as shall be disbursed under the loan agreement for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the identified Agency Project Area. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current unpaid balance at June 30, 2003 was \$1,674,031.

**(h) Village Avante Apartments 2**

On March 22, 2000, the Agency Board authorized a loan to Don Avante Associates II in the amount of \$640,000. This loan is to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2003 was \$697,745.

6. LOANS RECEIVABLE (continued)

(i) Villa Ciolino

On November 23, 1999, the Morgan Hill Redevelopment Agency Board approved a loan of \$1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. Under the terms of the loan, South County Housing will remove and replace 21 occupied but dilapidated housing units, rehabilitate 8 more, and add 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55-years, and is secured by a deed of trust.

On December 15, 1999, the Redevelopment Agency Board modified the interest rate from compound to simple at the request of the Low Income Housing Tax Credit Limited Partner tax counsel

On June 28, 2000, the loan was further modified by approving an increase of \$475,000 to cover increased costs of material and labor incurred because of an increased scope of off-site work and the pressures of a very busy construction market place. The balance at June 30, 2003 was \$2,691,727.

(j) Church Street Apartments

On August 31, 2000, the Redevelopment Agency Board entered into an agreement to loan \$1.35 million to South County Housing to purchase two parcels and develop an affordable housing project. On December 6, 2000, the Agency Board approved additional funding to the Church Street Apartments housing project in the amount of \$1.9 million for the acquisition of four vacant parcels. This housing project will combine up to 72 residential family apartments to lower income families including a minimum of 23 replacements units and approximately 10,000 square feet of commercial space. The apartment units will be located in 2 and 3 story buildings with up to 12 units located on the second floor of the commercial building. The loan is secured by a deed of trust. The balance of the Church loan at June 30, 2003 was \$3,463,330.

The California Housing Finance Agency (CHFA) will be reimbursing the Agency for part of this disbursement through its HELP loan program. The Agency Board approved the CHFA loan in the amount of up to \$1 million. This is an unsecured loan to the Agency for use as "holding" funds for housing projects in development.

(k) Murphy Ranch

On August 8, 2001 the Redevelopment Agency of the City entered into a loan agreement in the amount of \$3,300,000 with Murphy Ranch, L.P. The purpose was to fund the acquisition of property and the pre-development, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%. Payments are received annually. On May 7, 2002 the agreement was amended to increase the principal amount of the promissory note by \$1,990,000, increasing the total commitment to \$5,290,000. At June 30, 2003 there was a balance due to the Agency in the amount of \$5,606,880.

6. LOANS RECEIVABLE (continued)

(l) Other Loans

The City and Agency have issued loans for several other projects, all of which are secured by deeds of trust. Detailed information for these loans is as follows:

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
Morgan Hill Grange	\$657,709	7.0%	2026	Loan will be forgiven at maturity unless property is transferred
Bridge Counseling Center	96,950	3.0%	2020	Interest and principal due at maturity
Methodist Church	18,341	None	2005	Balance due if sold or leased
Sycamore Glen	318,000	4.6%	2028	Interest and principal due at maturity
South County Housing - (Skeels Hotel)	233,060	3.0%	2005	Interest and principal due at maturity
Police Housing	97,517	various	various	Interest and principal deferred 5 yrs must be a police officer of the City
Community Solutions	105,000	5.0%	2017	Deferred principal and interest
South County Housing	15,499	3.0%	2012	Interest and principal due at maturity
Woodland Hills	69,264	various	various	various
Specialized Loan	489,248	6.0%	2039	After 10 yrs-interest free
MH School Relocation	671,245	6.0%	2025	Interest and principal deferred 10 years
Employee Housing Asst.	514,357	5.6%	2030	None
Employee Housing Asst.	514,357	5.6%	2030	None
Weston-Miles Granary	350,000	3.0%	2018	Interest and principal due at maturity
Corona Loan	7,768	7.0%	2041	Balance due in event of default, transfer, or resale restriction agreement expires
Gayle Richter	15,476	6.5%	2016	None
Employee computer loans	32,093	None	Various	Payments made through payroll deductions
South County Housing	50,132	4.0%	2011	Interest and principal due at maturity
South Valley Charter	22,154	2.201%	2008	Interest and principal due at maturity
<b>Total</b>	<b>\$ 3,763,813</b>			

(m) Recognition of Deferred Revenue for Loans Receivable

The City has recognized a deferred revenue on the governmental balance sheet for interest earned but not received on loans receivable. Interest on loans receivable recorded as a deferred revenue may be uncollectible or forgiven in the future.

6. LOANS RECEIVABLE (continued)

Deferred revenue has been recognized as a revenue in accordance with GASB Statement 34 on the government wide statement of activities. In addition to interest earnings, the City has recognized receipts of business license fees and room rental fees for the following year. Total deferred revenue recognized as earnings are as follows:

Amount recorded on Statement of Activities	
Business Licenses	\$79,474
Recreation room rent	19,228
Interest on loans receivable	9,573,249
<b>Total Revenue Recognized</b>	<b>\$9,671,951</b>

7. LONG TERM DEBT

Summary of Changes in Long-Term Debt

	Governmental Activity Debt			Business Type Activity Debt	Totals
	Special Assessment	Redevelopment Agency	Comp. Absences	Enterprise Funds	
Balances, June 30, 2002	\$1,680,000	\$9,291,671	\$422,834	\$5,188,602	\$16,603,107
Additions	—	150,343	293,988	—	444,331
Retirements	(370,000)	(2,550,000)	—	(160,512)	(3,080,512)
<b>Balances, June 30, 2003</b>	<b>\$1,310,000</b>	<b>\$6,892,014</b>	<b>\$736,822</b>	<b>\$5,028,090</b>	<b>\$13,966,926</b>

(a) Special Assessment District Debt for which the City is Obligated in Some Manner

Certain special assessment districts within the City have issued debt repayable out of special assessments levied on property in each respective district. The City is under no legal obligation to repay the special assessment debt. However, the City is required to make advances or to be the purchaser of last resort for property on which delinquent assessments are unpaid and it has therefore included this debt in its general purpose financial statements. The following is a schedule of debt outstanding for these districts as of June 30, 2003:

District/Debt Issue	Year Issued	Interest Rate	Principal Matures		Outstanding June 30, 2002
			Annual Amount	Period	
Cochrane Business Park	1986	8.00-8.25%	95,000-210,000	2003-2012	1,170,000
Joleen Way	1992	10.00%	20,000-30,000	2003-2009	140,000
<b>Total Special Assessment Bonds Outstanding</b>					<b>\$1,310,000</b>

As of June 30, 2003, there were no delinquent assessments receivable for the above districts. Revenues collected were sufficient to make the required debt service payments, which amounted to \$610,340 for fiscal year 2002-03.

7. LONG TERM DEBT (continued)

(b) Redevelopment Agency Long-Term Debt

The Redevelopment Agency had \$6,892,014 in long-term debt as of June 30, 2003, comprised of \$1,092,014 for the California Housing Finance Agency (CHFA) loan, \$3,250,000 for the Gunderson property and \$2,550,000 for the Sports complex property as described below.

On October 5, 2000, the Agency entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan is for the South County Housing Church Street project. The loan payment has been deferred for 10 years. The balance of this loan at June 30, 2003 is \$1,092,014.

On April 26, 2001, the Agency entered into a loan agreement for property acquisition of the Gunderson property in the amount of \$5,500,000. The Gunderson property is intended to be used for the future sight of the indoor recreation center. The balance due of \$3,250,000 will be paid in April 2004.

The Redevelopment Agency entered into a property purchase agreement for the proposed sight of the future sports complex. The purchase price was \$7,650,000. Installment payments of \$2,550,000 are due annually. At June 30, 2003 the remaining balance due was \$2,550,000.

(c) Compensated Absences

The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain and thus not included in the above schedule. This \$736,822 obligation will be payable with resources to be received in future periods.

(d) Other Long-Term Debt (Business-type activities)

The following is a schedule of bonds payable and certificates of participation, net of unamortized discount, as of June 30, 2003 by individual issue.

Bond	Due Serially to	Interest Rates	Outstanding at June 30, 2002
Enterprise Funds:			
1993 Water Facilities Loan	2017	7.125%	1,117,407
1999 Certificates of Participation	2021	6.500%	3,910,683
<b>Total Long-Term Debt</b>			<b>\$5,028,090</b>

7. LONG TERM DEBT (continued)

*1993 Water Facilities Loan*

On July 1, 1993, the California Statewide Communities Development Authority (Development Authority) issued \$14,195,000 Senior Series 1993A Bonds and \$8,000,000 Subordinate Series 1993B Bonds. Proceeds from the bonds enabled the Development Authority to make loans to numerous California public entities (borrowers). The bonds are limited obligations of the Development Authority and are secured by a pledge of water revenues from the borrowers. The City borrowed \$1,902,645 from the Development Authority. The City's outstanding balance at June 30, 2003 was \$1,433,847. The 1993 Water Facilities Loan is due by July 2017 and bears interest at 7.125%. Proceeds from the loan were used to retire a \$1,313,863 water facilities loan and pay costs of issuance.

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt, \$515,183, was deferred and is being amortized as a component of interest expense over the life of the new loan, which is equal to the remaining life of the refunded debt. In addition, the debt is shown net of this deferred amount.

*1999 Certificates of Participation*

On May 1, 1999, the City issued \$5,090,000 Refunding Certificates of Participation to provide funds to advance refund the outstanding \$4,550,000 principal amount of the 1991 Certificates. The balance outstanding for the 1999 issue at June 30, 2003 was \$4,525,000. A portion of the proceeds of the Certificates has been deposited in an escrow fund (the "1991 Certificates Escrow Fund") pursuant to an escrow agreement dated as of May 1, 1999, between the City and U. S. Bank Trust National Association, an escrow bank. Such amounts, together with monies transferred to the 1991 Certificates Escrow Fund from certain funds held by the trustee for the 1991 Certificates, have been invested in direct obligations of the United States of America which will mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay each installment of interest and principal with respect to the 1991 Certificates through June 1, 2002 and to provide for the redemption on June 1, 2002 of the 1991 Certificates maturing on or after June 1, 2003 at the redemption of 102% of the principal of the 1991 Certificates maturing on or after June 1, 2003.

Complete financial information for the Development Authority may be obtained from American Government Financial Services, the company handling the bond issuance, at the following address:

American Government Financial Services  
901 Sunrise Avenue, Suite A-16  
Roseville, CA 95661

7. LONG TERM DEBT (continued)

(e) Future Debt Service Payment Requirements

Year Ending June 30	Governmental Activities Debt		Business Type Activities	Totals
	(A) Special Assessment	(B) Agency Debt	(C) Enterprise Funds	
2004	222,640	3,250,000	545,439	4,018,079
2005	217,493	2,550,000	548,839	3,316,332
2006	216,432		551,839	768,271
2007	214,457		549,439	763,896
2008	211,618		546,650	758,268
2009-2013	764,584	1,092,014	2,752,597	4,609,195
2014-2018			2,600,958	2,600,958
2019-2023			1,153,395	1,153,395
Subtotals	\$1,847,224	\$6,892,014	\$9,249,156	\$17,988,394
Less interest, discounts and deferred charges	(537,224)	-	(4,221,066)	(4,758,291)
Totals	\$1,310,000	\$6,892,014	\$5,028,090	\$13,230,103

Debt service payments for the above obligations are made from the following sources:

- (I) Special tax assessments secured by the related real properties.
- (II) Incremental property taxes authorized for the Agency and loan repayments.
- (III) Operating revenues recorded in the Water and Sewer Enterprise Funds.

(f) Bonds for which the Agency has No Obligation - La Crosse Village Project

The Agency has outstanding as of June 30, 2003 approximately \$4,529,921 of tax exempt multifamily mortgage revenue bonds due through December 1, 2027. These bonds were issued to provide funds for secured mortgage loans to builders of a multifamily housing project, the La Crosse Village Project. The purpose of the program is to provide needed rental housing for low to moderate income households. The Agency is required to set aside 20% of all units built in this project for low income households. The bonds are payable solely from payments made on the related secured mortgage loans. The unpaid balance is insured by mortgage guaranty insurance of the Federal Housing Authority (FHA).

In the opinion of the Agency officials, these bonds are not payable from any revenues or assets of the Agency or the City. Neither the faith and credit nor the taxing power of the Agency, the state, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general-purpose financial statements.

**7. LONG TERM DEBT (continued)**

**(g) Special Assessment Debt for which the City is Not Obligated in Any Manner**

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default. At June 30, 2003, the total balance of these districts' outstanding debt was \$26,910,000, comprised of \$5,470,000, \$435,000, \$10,500,000, and \$10,505,000 for the Morgan Hill Business Ranch I, Morgan Hill Business Ranch II, Morgan Hill Ranch 98 and Madrone Business Park Series A and B assessment districts, respectively.

**(h) Legal Debt Limit and Debt Margin**

The City's legal debt limit and debt margin was \$634,816,599 as of June 30, 2003.

**8. SEWER CAPACITY RIGHTS/REFUNDING**

In May 1992, the City entered into a Joint Powers Agreement with the City of Gilroy to create the South County Regional Wastewater Authority (SCRWA). The Authority was formed to purchase or acquire property and own and operate wastewater treatment facilities through cooperative action.

In September 1992, the Authority issued bonds totaling \$66,480,000 of which the City's portion (42%) was \$28,065,000. The bonds mature serially through August 2022 and bear interest at rates ranging from 4.5% to 5.75%. Under the Joint Powers Agreement, proceeds from the City's portion of the bonds were used to retire \$5,000,000 outstanding 1988 Sewer Certificate of Participation (COPS) and to finance the City's share of the capacity expansion costs for the sewage treatment facility.

In October 2002, the City issued \$25,390,000 in advance refunding revenue bonds to reduce the cost of future debt service and interest payments. The proceeds were used to refund and retire the 1992 B SCRWA bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$22,318. This excess was applied to the costs of issuance. The remaining life of the old debt and the life of the new debt are the same, ten years. This advance refunding will reduce debt service payments over the next ten years by \$2,308,196 and resulted in an economic gain of \$1,618,563.

The bonds are limited obligations of the Authority and are secured by a pledge of net revenues of the City's sewer enterprise fund and those of the City of Gilroy. The City is obligated to make installment payments to the Authority in the amount of the debt service requirements applicable to its portion of the debt. The City maintained sufficient sewer rates to make the required payments. Complete financial statements for the Authority may be obtained from the City of Gilroy (which maintains the financial records for the Authority) at the following address:



8. SEWER CAPACITY RIGHTS/REFUNDING (continued)

City of Gilroy  
Attention: Finance Department  
7351 Rosanna Street  
Gilroy, CA 95020.

Future installment payments due by the City as of June 30, 2003 are as follows:

<u>Year Ending June 30</u>	<u>Installment Payment Due</u>
2004	\$1,970,638
2005	1,809,737
2006	1,810,308
2007	1,809,937
2008	1,814,388
2009-2013	9,051,050
2014-2018	9,034,919
2019-2013	8,899,404
Total principal & interest payments	\$36,200,381
Less amounts representing:	
Interest	(10,810,381)
Discounts	(2,705,125)
Total principal amount due	\$22,684,875

9. EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the Fund's annual financial report may be obtained from:

CalPERS Executive Office  
400 P Street  
Sacramento, CA 95814

9. **EMPLOYEES' RETIREMENT PLAN (continued)**

**Funding Policy**

Public safety employees and all other employees have an obligation to contribute 9% and 7% of their salary to the Fund, respectively. The City makes the contributions required of City employees on their behalf and for their account, with the exception of safety and certain management personnel who are contributing the obligation through their earnings. The City is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2002-03 were 0% for public safety personnel and 0% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. For fiscal year ending June 30, 2003, CalPERS covered payroll totaled \$11,007,627. Employee contributions to the fund were \$824,490, paid by a combination of management employees, safety employees, and the City.

**Annual Pension Cost**

The City's annual pension cost for the Fund was equal to the City's required and actual contributions which was determined as part of the June 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities (or excess assets) of the City has an average remaining period of 9 years, determined by the plan's date of entry. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period.

**Three-Year Trend Information**

The following table shows the City's required contributions and the percentage contributed, for the current year and each of the preceding two years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2001	\$278,735	100%	\$0
6/30/2002	319,104	100%	0
6/30/2003	399,486	100%	0

10. NET ASSETS

Net assets consist of restricted and unrestricted amounts. Restricted net assets represent that portion which is not available for appropriation or expenditure, or is legally segregated for a specific future use.

Restricted net assets at June 30, 2003 are as follows:

	Govt-Type Activities	Business-Type Activities	Component Unit
<b>Restricted for:</b>			
Invested in capital assets	\$58,297,227	\$47,480,364	
Low and Mod income housing, under state law	30,526,683		
Capital improvements, under state law	12,644,875	4,373,963	
Debt service	508,380		
<b>Total Restricted Net Assets</b>	<b>\$101,977,165</b>	<b>\$51,854,327</b>	<b>\$146</b>
Unrestricted	49,170,574	19,975,968	264,851
<b>Total Fund Balance</b>	<b>\$151,147,739</b>	<b>\$71,830,295</b>	<b>\$264,997</b>

11. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year, if not during the fiscal year. Interfund transactions are reported on the governmental fund type statements but are eliminated for government-wide reporting. At June 30, 2003, there were no interfund balances due.

12. COMMITMENTS/CONTINGENCIES

(a) Grant Programs

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City's compliance with applicable program requirements will be determined at a future date. The amount of any expenditures which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial and has met all requirements of the various programs in the past.

**12. COMMITMENTS/CONTINGENCIES (continued)**

**(b) Low and Moderate Housing Requirements of the Agency**

The California Health and Safety Code, Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Housing Capital Projects Fund to account for this commitment and has reserved \$5,878,523 for such expenditures. The Agency has expended approximately \$16,226,870 for low and moderate income housing since its inception.

**(c) Redevelopment Plan Requirements of the Agency**

Effective January 1, 1995, the State Legislature passed Assembly Bill 1290. This legislation imposes several new requirements on redevelopment agencies and permits the establishment of new time limits for the issuance of debt, plan termination, and the collection of tax increment. The Agency amended its redevelopment plan during the year ended June 30, 1995 to be in accordance with these requirements.

As part of AB 1290, the Agency is required to report any "excess surplus" to the Federal Department of Housing and Community Development. An excess surplus exists for a fiscal year if the unencumbered balance at year-end in the Agency's Low and Moderate Housing Capital Project Fund exceeds the greater of \$1 million or the aggregate amount of tax increments deposited into this fund during the preceding four fiscal years. If any excess surplus is not spent or encumbered within three years it must be transferred to the County's housing authority. The Agency did not have any excess surplus housing funds for the fiscal year ended June 30, 2003, based on calculations by the Agency's management.

As detailed in the current redevelopment plan amended November 1999, the maximum amount of tax increment revenue that the Agency may collect over its lifetime is \$247 million. The Agency had collected approximately \$156 million of tax increment revenue from its inception through June 30, 2003, leaving approximately \$91 million remaining to be collected in the future through the year 2031.

**(d) Risk Management**

The City Attorney and the City's Risk Manager have determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and judgments as of June 30, 2002, are approximately \$925,781. This amount is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the reported liability since June 30, 2001 resulted in the following:

12. COMMITMENTS/CONTINGENCIES (continued)

	Unemployment and Workers' Compensation	General Liability	Total
Liability as of 6/30/01	\$671,341	\$321,088	\$992,429
Claims and changes in estimates during the year ended 6/30/02	300,102	135,775	435,877
Claims payments during the year ended 6/30/02	(261,479)	(110,446)	(371,925)
Liability as of 6/30/02	\$709,964	\$346,417	\$1,056,381
Claims and changes in estimates during the year ended 6/30/03	163,740	96,350	260,090
Claims payments during the year ended 6/30/03	(273,740)	(116,950)	(390,690)
Liability as of 6/30/03	\$599,964	\$325,817	\$925,781

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2003. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City. As a result of such review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in FASB Statement No. 5.

The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying general purpose financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying general-purpose financial statements. The retained earnings balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

(e) **Gann Spending Limitation Initiative**

Under Article XIII B of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2003, based on calculations by the City's management, proceeds of taxes did not exceed appropriations.

(f) **Construction and Other Significant Commitments**

Listed below are the projects for uncompleted contracts over \$200,000 outstanding as of June 30, 2003 for all funds.

**12. COMMITMENTS/CONTINGENCIES (continued)**

<b>Project Name</b>	<b>Contract Outstanding</b>
Dunne/101 Bridge	471,425
Aquatics Center	607,574
Indoor Recreation Center	200,000
Butterfield Blvd. and Street Resurfacing	4,672,025
Library	822,142
San Pedro Well	703,120
Edmundson Reservoir	205,396

**(g) Contracting out of Fire and Emergency Medical Services**

On September 6, 1996, the City approved a fire and emergency service agreement with the Santa Clara County Central Fire Protection District, (the District), with an effective start date of October 2, 1996. The agreement consisted of the following terms:

The expiration date of the agreement is July 1, 2005, at which time it will automatically renew for ten years unless the City or District provides written notice of non-renewal to the other party at least 180 days prior to the expiration date of the agreement.

The City paid \$3,623,938 in operating fees for services provided under this agreement for fiscal year 2003. Annual charges for services are adjusted each year for the change in the Consumer Price Index for the San Francisco Bay Area or the average annual cost of living increase in total compensation provided to all fire suppression non- management employees of the District, whichever is less.

In the event an additional fire station is needed to provide adequate fire and emergency medical services to the City, an additional \$1.3 million (adjusted for inflation or wage increases, whichever is less) shall be charged to the City by the District for these services annually.

The District shall submit to the City by January 1st of each year a proposal for capital needs for fire services for the City to consider in its budget process for the following fiscal year. Fire impact fees will not be used to offset contract costs unless mutually agreed. All capital expenditures contemplated must meet the legal requirements for using impact fees.

**13. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. The City's general purpose financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

**13. RISK MANAGEMENT (continued)**

The City is self-insured for workers' compensation up to a maximum of \$250,000 per occurrence; purchased insurance covers the excess up to \$5,000,000 per year. The City is also fully self-insured for unemployment insurance. In addition, The City participates in the Association of Bay Area Governments Pooled Liability Insurance Network (ABAG-PLAN), a self-funded pooled insurance corporation established by a joint powers authority in which the City is one of 30 members. ABAG-PLAN provides general liability insurance up to \$10,000,000 per occurrence through a combination of \$5,000,000 pool coverage and \$5,000,000 of excess insurance, subject to a \$100,000 deductible. The rights and responsibilities of the member agencies are governed by the bylaws of the ABAG-PLAN, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between \$25,000 and \$250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disburseable equity to members. ABAG-PLAN is responsible for administering the insurance program. ABAG-PLAN provides claims administration and risk management services to the members.

ABAG-PLAN also provides property insurance for the City, including a \$5,000 deductible per occurrence, except for vehicles where there is a \$10,000 deductible per occurrence. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the year ended June 30, 2002.

Complete financial statements for ABAG-PLAN may be obtained from their offices at the following address:

ABAG Plan Corporation  
Finance Department  
P.O. Box 2050  
Oakland, CA 94604

**14. JOINT POWERS AUTHORITY (Discretely presented component unit)**

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue. Title to the property vested with the City at the end of the lease term.

The City and the School District entered into a new lease agreement, effective May 22, 2000, whereby the City has leased a portion of the Corporation Yard to the District. Premises are leased for use as a bus barn for fueling, maintenance, parking and washing. The current lease expires December 31, 2006.

In June of 1995, the property that is shared by the School District and the City was contaminated by a leaking fuel tank. Costs through June 30, 2003 for clean-up and legal fees have been \$1,644,163 of which \$1,290,575 has been reimbursed by the State Water Resources Control Board Underground Storage Tank Fund. It is expected the clean up will be completed in the year 2007 at an additional cost of \$2,000,000.

**15. SUBSEQUENT EVENTS**

Effective July 1, 2003, the City began paying an employer contribution to the State of California's Public Retirement System (CalPERS). The 2003/04 employer contribution for miscellaneous employees is 2.469% of payroll and 6.805% of payroll for safety employees. This is an increase from 0% in prior years for both employee groups. In addition, CalPERS has reported in their June 30, 2002 actuarial study that the normal employer contribution rates for fiscal year 2004/05 will be 8.133% of payroll for miscellaneous employees and 24.397% of payroll for safety employees. CalPers projects the employer contribution rates for 2005/06 at 9.4% of payroll for miscellaneous employees and 27.5% of payroll for safety employees.



**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**PENSION PLAN**

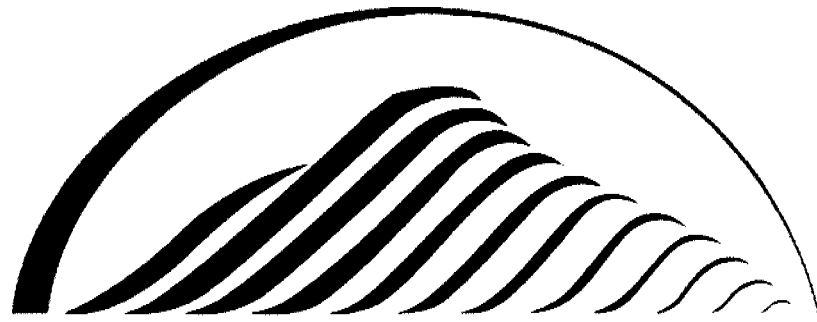
**SCHEDULE OF FUNDING PROGRESS**

**Miscellaneous Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/00	14,820,976	19,160,293	(4,339,317)	129.3%	5,607,484	-77.4%
6/30/01	16,316,268	19,818,634	(3,502,366)	129.3%	6,245,280	-56.1%
6/30/02	18,881,880	19,103,311	(221,431)	101.2%	7,488,761	-3.0%

**Safety Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/00	20,116,509	25,408,998	(5,292,489)	126.3%	2,178,137	-243.0%
6/30/01	23,994,711	26,361,563	(2,366,852)	109.9%	2,540,333	-93.2%
6/30/02	17,964,413	16,159,331	1,805,082	90.0%	2,494,782	72.4%



**CITY OF MORGAN HILL**

# **Combining and Individual Fund Financial Statements**



**Special Revenue Funds**

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

Supplemental Law Enforcement Services-This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

Community Development-This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

Street Maintenance-This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction, and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

General Plan Update-This fund accounts for revenues and expenditures associated with the City's general plan update.

Housing Block Grants-This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expense, and must benefit low and moderate income individuals seeking housing.

Museum Rental-This fund receives fees from the City owned museum, which are used to offset its operating costs.

Asset Seizure-This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

Lighting and Landscape Districts-This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

Environmental Programs-Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

Mobile Home Rent Stabilization-This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

Senior Housing Fund-This fund was established to assist eligible elderly person in the City and in the City's sphere of influence in meeting their housing-related needs.

Housing Mitigation Fund-This fund receives in-lieu funding from developers who compete in the City's Residential Development Control System (Measure P). Funds are used in providing shelter and services.

Community Center Fund-This fund was created to account for the startup costs of the Community Cultural Center.

**Special Revenue Funds, (Continued)**

Employee Assistance-This fund was created to support various employee financial assistance programs. The first program, the employee computer loans, makes technology use affordable for all employees and improves skills in the workplace by encouraging use at home. Fund will be used on a revolving basis, and any future loans will be made from the repayment of previous loans.

**Capital Projects Funds**

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue funds.

Park Capital Improvement-This fund receives revenues from developers of properties and the fund may only be used for the design, development, maintenance, and construction of new parks within the City.

Park Maintenance-This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

Storm Drain-This fund receives revenues from developers of properties and the funds may only be used for the design and construction of new storm drains.

Off Street Parking- This fund accumulates revenue from charges to developers within the downtown core area to help meet future parking requirements.

Open Space-This fund receives revenues from developers of properties and the funds may be used for the purchase of land for open space.

Traffic Mitigation-This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The fund collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.

Police, Fire, and Library Mitigation-These funds' revenues are derived from a fee charged to developers to cover the costs required for police, fire, and library capital expansion projects to assist in providing service to new developments.

Public Facilities-This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

Undergrounding-This fund received revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

Morgan Hill Business Ranch-This fund accounts for costs incurred in the design and construction of streets in this assessment district.

**Debt Service Funds**

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Encino Hills Fund, Morgan Hill Business Park Fund, Sutter Business Park Fund, Cochrane Business Park Fund, and Joleen Way Fund-These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements and the County levies this assessment as part of the annual property tax bill. The county remits the collections to the City, and which in turn pays the debt service on the bonds. The City has some legal obligation for repayment of these bonds.





City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

	Special Revenue Funds			
	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
<b>Assets</b>				
Pooled cash and investment	\$ 482,634	\$ 1,617,788	\$ 1,623,676	\$ 204,171
Restricted pooled cash and investments				
Receivables:				
Accrued interest	2,717	8,748	7,940	1,045
Other accounts receivable		2,916	50,998	
Deposit in Escrow/Prepaid Item			95,330	
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments				
Fixed assets, net				
<b>Total Assets</b>	<b>485,351</b>	<b>1,629,452</b>	<b>1,777,944</b>	<b>205,216</b>
<b>Liabilities</b>				
Accounts payable		44,688	86,237	14,283
Accrued liabilities		33,035	8,576	88
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation				
<b>Total liabilities</b>	<b>-</b>	<b>77,723</b>	<b>94,813</b>	<b>14,371</b>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances		253,647	813,747	126,156
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects				
Unreserved:				
Designated for economic development				
Undesignated	485,351	1,298,082	869,384	64,689
<b>Total Fund Balances</b>	<b>485,351</b>	<b>1,551,729</b>	<b>1,683,131</b>	<b>190,845</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 485,351</b>	<b>\$ 1,629,452</b>	<b>\$ 1,777,944</b>	<b>\$ 205,216</b>

City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

	Special Revenue Funds			
	Housing Block Grant	Museum Rental	Asset Seizure	Lighting and Landscape
<b>Assets</b>				
Pooled cash and investment	\$ -	\$ 1,421	\$ 37,900	\$ 63,533
Restricted pooled cash and investments	179,905			
Receivables:				
Accrued interest	1,018	7	196	103
Other accounts receivable	28,023			
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable	644,828			
Taxes and special assessments				
Fixed assets, net				
<b>Total Assets</b>	<b>853,774</b>	<b>1,428</b>	<b>38,096</b>	<b>63,636</b>
<b>Liabilities</b>				
Accounts payable	18,071	155		29,582
Accrued liabilities	3,334			288
Due to other funds				
Deferred revenue	196,233			
Vacation and compensated absence obligation				
<b>Total liabilities</b>	<b>217,638</b>	<b>155</b>	<b>-</b>	<b>29,870</b>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	4,307			12,246
Low and moderate income housing				
Noncurrent loans and notes receivable	448,595			
Properties held for resale				
Debt Service				
Capital expansion projects				
Unreserved:				
Designated for economic development				
Undesignated	183,234	1,273	38,096	21,520
<b>Total Fund Balances</b>	<b>636,136</b>	<b>1,273</b>	<b>38,096</b>	<b>33,766</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 853,774</b>	<b>\$ 1,428</b>	<b>\$ 38,096</b>	<b>\$ 63,636</b>

City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

Special Revenue Funds					
Environmental Programs	Mobile Home Park Rent Stabilization	Housing Development	Employee Assistance	Community Center	TOTAL
\$ 533,980	\$ 25,768	\$ 1,296,464	\$ 8,275	\$ 357,888	\$ 6,253,498
					179,905
2,775	144	6,717	36	2,269	33,715
81,753			609		164,299
					95,330
			32,093		676,921
					-
					-
<u>618,508</u>	<u>25,912</u>	<u>1,303,181</u>	<u>41,013</u>	<u>360,157</u>	<u>7,403,668</u>
2,276	16,104	4,265			215,661
2,535					47,856
			32,093		228,326
					-
					-
<u>4,811</u>	<u>16,104</u>	<u>4,265</u>	<u>32,093</u>	<u>-</u>	<u>491,843</u>
47,865					1,257,968
					-
					448,595
					-
					-
					-
565,832	9,808	1,298,916	8,920	360,157	5,205,262
<u>613,697</u>	<u>9,808</u>	<u>1,298,916</u>	<u>8,920</u>	<u>360,157</u>	<u>6,911,825</u>
<u>\$ 618,508</u>	<u>\$ 25,912</u>	<u>\$ 1,303,181</u>	<u>\$ 41,013</u>	<u>\$ 360,157</u>	<u>\$ 7,403,668</u>

**City of Morgan Hill, California**  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2003

**Comprehensive Annual Financial Report**

	Debt Service Funds			
	Encino Hills	Morgan Hill Business Park	Sutter Business Park	Cochrane Business Park
<b>Assets</b>				
Pooled cash and investment	\$ -	\$ -	\$ -	\$ -
Restricted pooled cash and investments	67,179	11,246	24,782	372,500
Receivables:				
Accrued interest	348	58	128	1,356
Other accounts receivable				
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments	500	563		1,255,562
Fixed assets, net				
<b>Total Assets</b>	<b>68,027</b>	<b>11,867</b>	<b>24,910</b>	<b>1,629,418</b>
<b>Liabilities</b>				
Accounts payable				
Accrued liabilities				
Due to other funds				
Deferred revenue				1,255,000
Vacation and compensated absence obligation				
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,255,000</b>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances				
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service	68,027	11,867	24,910	374,418
Capital expansion projects				
Unreserved:				
Designated for economic development				
Undesignated				
<b>Total Fund Balances</b>	<b>68,027</b>	<b>11,867</b>	<b>24,910</b>	<b>374,418</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 68,027</b>	<b>\$ 11,867</b>	<b>\$ 24,910</b>	<b>\$ 1,629,418</b>

City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

Debt Service Funds		Capital Projects Funds				
Joleen Way	TOTAL	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking	Open Space
\$ - 29,115	\$ - 504,822	\$ - 3,190,383	\$ 2,894,214	\$ 2,896,121 3,120,379	\$ 4,000	\$ 456,842
43	1,933	16,436	15,029	30,969 140,000	20	1,645
	-					
	-					
	-					
123,322	1,379,947					
	-					
<u>152,480</u>	<u>1,886,702</u>	<u>3,206,819</u>	<u>2,909,243</u>	<u>6,187,469</u>	<u>4,020</u>	<u>458,487</u>
	-	15,189				
	-					
123,322	1,378,322					
	-					
<u>123,322</u>	<u>1,378,322</u>	<u>15,189</u>		<u>-</u>	<u>-</u>	<u>-</u>
	-	111,684		3,500		
	-					
	-					
29,158	508,380					
	-	3,079,946		2,907,454		
	-					
	-		2,909,243	3,276,515	4,020	458,487
<u>29,158</u>	<u>508,380</u>	<u>3,191,630</u>	<u>2,909,243</u>	<u>6,187,469</u>	<u>4,020</u>	<u>458,487</u>
<u>\$ 152,480</u>	<u>\$ 1,886,702</u>	<u>\$ 3,206,819</u>	<u>\$ 2,909,243</u>	<u>\$ 6,187,469</u>	<u>\$ 4,020</u>	<u>\$ 458,487</u>

City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

	Capital Projects Funds			
	Traffic Mitigation	Police Mitigation	Fire Mitigation	Public Facilities
<b>Assets</b>				
Pooled cash and investment	\$ -	\$ -	\$ -	\$ 1,326,604
Restricted pooled cash and investments	2,818,748	1,176,990	2,590,542	691,309
Receivables:				
Accrued interest	14,308	6,055	13,317	9,869
Other accounts receivable	13,121			
Deposit in Escrow/Prepaid Item				36,670
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments				
Fixed assets, net				
<b>Total Assets</b>	<b>2,846,177</b>	<b>1,183,045</b>	<b>2,603,859</b>	<b>2,064,452</b>
<b>Liabilities</b>				
Accounts payable	20,062	-		66,707
Accrued liabilities				
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation				
<b>Total liabilities</b>	<b>20,062</b>	<b>-</b>	<b>-</b>	<b>66,707</b>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	350,000	20,000		949,534
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects	2,476,115	1,163,045	2,603,859	
Unreserved:				
Designated for economic development				
Undesignated				1,048,211
<b>Total Fund Balances</b>	<b>2,826,115</b>	<b>1,183,045</b>	<b>2,603,859</b>	<b>1,997,745</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,846,177</b>	<b>\$ 1,183,045</b>	<b>\$ 2,603,859</b>	<b>\$ 2,064,452</b>

City of Morgan Hill, California  
Combining Balance Sheet  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2003

Comprehensive Annual Financial Report

Capital Projects Fund				
Library Mitigation	Under Grounding	Morgan Hill Business Ranch	TOTAL	Total Nonmajor Govt Funds
\$ -	\$ 1,250,756	\$ 101,994	\$ 8,930,531	\$ 15,184,029
412,346			14,000,697	14,685,424
			-	-
2,110	6,461	528	116,747	152,395
			153,121	317,420
			36,670	132,000
			-	-
			-	676,921
			-	1,379,947
			-	-
<u>414,456</u>	<u>1,257,217</u>	<u>102,522</u>	<u>23,237,766</u>	<u>32,528,136</u>
				-
			101,958	317,619
			-	47,856
			-	-
			-	1,606,648
			-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>101,958</u>	<u>1,972,123</u>
				-
				-
			1,434,718	2,692,686
			-	-
			-	448,595
			-	-
			-	508,380
414,456			12,644,875	12,644,875
			-	-
			-	-
	1,257,217	102,522	9,056,215	14,261,477
<u>414,456</u>	<u>1,257,217</u>	<u>102,522</u>	<u>23,135,808</u>	<u>30,556,013</u>
<u>\$ 414,456</u>	<u>\$ 1,257,217</u>	<u>\$ 102,522</u>	<u>\$ 23,237,766</u>	<u>32,528,136</u>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

	Special Revenue Funds			
	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
<b>Revenues:</b>				
Property taxes and special assessment				
Funding from other governmental agencies	\$ 138,639		\$ 750,040	
Charges for current services		\$ 2,542,234	3,375	\$ 52,284
Investment income and rentals	21,142	59,477	49,852	5,470
Fines, forfeitures, and other revenues		3,641	147,524	
<b>Total Revenues</b>	<b>159,781</b>	<b>2,605,352</b>	<b>950,791</b>	<b>57,754</b>
<b>Expenditures:</b>				
Current:				
General Government	538			5,465
Police Services				
Public works/development services		2,921,000	1,572,869	38,854
Capital outlay	45,000	10,150	287,188	
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>45,538</b>	<b>2,931,150</b>	<b>1,860,057</b>	<b>44,319</b>
Excess (deficiency) of revenues over (under) expenditures	114,243	(325,798)	(909,266)	13,435
<b>Other Financing Sources (Uses)</b>				
Operating transfers in			977,000	66,582
Operating transfers (out)	(270,000)			
Proceeds from long-term debt				
<b>Total other financing sources (uses)</b>	<b>(270,000)</b>	<b>-</b>	<b>977,000</b>	<b>66,582</b>
Net change in fund balance	(155,757)	(325,798)	67,734	80,017
Fund Balances-Beginning	641,108	1,877,527	1,615,397	110,828
<b>Fund Balances-Ending</b>	<b>\$ 485,351</b>	<b>\$ 1,551,729</b>	<b>\$ 1,683,131</b>	<b>\$ 190,845</b>



**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

**Special Revenue Fund**

<u>Housing Block Grant</u>	<u>Museum Rental</u>	<u>Asset Seizure</u>	<u>Lighting and Landscape</u>	<u>Environmental Programs</u>	<u>Mobile Home Park Rent Stabilization</u>	<u>Housing Development</u>
\$ 29,956			\$ 132,208	\$ 332,430 23,340		
20,003	\$ 85.00	\$ 1,529.00	1,077	16,866	\$ 16,518	\$ 43,576
54,957				44,920	1,515	5,707
<u>104,916</u>	<u>85</u>	<u>1,529</u>	<u>133,285</u>	<u>417,556</u>	<u>18,033</u>	<u>49,283</u>
35,320	2,619		163,722	269,108	61,539	15,000
		20,000				
<u>35,320</u>	<u>2,619</u>	<u>20,000</u>	<u>163,722</u>	<u>269,108</u>	<u>61,539</u>	<u>15,000</u>
69,596	(2,534)	(18,471)	(30,437)	148,448	(43,506)	34,283
						5,500 (5,500)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
69,596	(2,534)	(18,471)	(30,437)	148,448	(43,506)	34,283
566,540	3,807	56,567	64,203	465,249	53,314	1,264,633
<u>\$ 636,136</u>	<u>\$ 1,273</u>	<u>\$ 38,096</u>	<u>\$ 33,766</u>	<u>\$ 613,697</u>	<u>\$ 9,808</u>	<u>\$ 1,298,916</u>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

	<b>Special Revenue Fund</b>		
	<b>Employee Assistance</b>	<b>Community Center</b>	<b>Total</b>
<b>Revenues:</b>			
Property taxes and special assessment			\$ 464,638
Funding from other governmental agencies			941,975
Charges for current services			2,657,987
Investment income and rentals	\$ 415	\$ 25,861	208,999
Fines, forfeitures, and other revenues	15,067		266,109
<b>Total Revenues</b>	<b>15,482</b>	<b>25,861</b>	<b>4,539,708</b>
<b>Expenditures:</b>			
Current:			
General Government	46,562		599,873
Police Services			-
Public works/development services			4,532,723
Capital outlay			362,338
Debt service:			-
Principal			-
Interest and fiscal charges			-
<b>Total Expenditures</b>	<b>46,562</b>	<b>-</b>	<b>5,494,934</b>
Excess (deficiency) of revenues over (under) expenditures	(31,080)	25,861	(955,226)
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	40,000	100,000	1,189,082
Operating transfers (out)		(520,332)	(795,832)
Proceeds from long-term debt			-
<b>Total other financing sources (uses)</b>	<b>40,000</b>	<b>(420,332)</b>	<b>393,250</b>
Net change in fund balance	8,920	(394,471)	(561,976)
Fund Balances-Beginning		754,628	7,473,801
<b>Fund Balances-Ending</b>	<b>\$ 8,920</b>	<b>\$ 360,157</b>	<b>\$ 6,911,825</b>

## Comprehensive Annual Financial Report

### Nonmajor Governmental Funds

For the Year Ended June 30, 2003

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**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

	<b>Capital Projects</b>			
	<b>Park Capital Improvement</b>	<b>Park Maintenance</b>	<b>Storm Drains</b>	<b>Off Street Parking</b>
<b>Revenues:</b>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 354,321	\$ 222,548	\$ 330,002	
Investment income and rentals	103,535	122,621	210,617	\$ 134.00
Fines, forfeitures, and other revenues	30,561	134	148,000	
<b>Total Revenues</b>	<b>488,417</b>	<b>345,303</b>	<b>688,619</b>	<b>134</b>
<b>Expenditures:</b>				
Current:				
General Government				
Police Services				
Public works/development services				
Capital outlay	164,645	28,809	103,052	
Debt service:				
Principal				
Interest and fiscal charges				
<b>Total Expenditures</b>	<b>164,645</b>	<b>28,809</b>	<b>103,052</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	323,772	316,494	585,567	134
<b>Other Financing Sources (Uses)</b>				
Operating transfers in				
Operating transfers (out)	(3,291)	(100,000)		
Proceeds from long-term debt				
<b>Total other financing sources (uses)</b>	<b>(3,291)</b>	<b>(100,000)</b>	<b>-</b>	<b>-</b>
Net change in fund balance	320,481	216,494	585,567	134
Fund Balances-Beginning	2,871,149	2,692,749	5,601,902	3,886
<b>Fund Balances-Ending</b>	<b>\$ 3,191,630</b>	<b>\$ 2,909,243</b>	<b>\$ 6,187,469</b>	<b>\$ 4,020</b>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

**Capital Projects**

<u>Open Space</u>	<u>Traffic Mitigation</u>	<u>Police Mitigation</u>	<u>Fire Mitigation</u>	<u>Public Facilities</u>	<u>Library Mitigation</u>	<u>Under Grounding</u>
\$ 204,740	\$ 778,281	\$ 55,435	\$ 154,347	\$ 251,820	\$ 33,941	\$ 168,650
8,944	95,616	39,933	85,960	67,523	13,267	40,212
	2,565			74,000		
<u>213,684</u>	<u>876,462</u>	<u>95,368</u>	<u>240,307</u>	<u>393,343</u>	<u>47,208</u>	<u>208,862</u>
		38,147			864	
	917,783	42,937	152,084	487,812		87,426
<u>-</u>	<u>917,783</u>	<u>81,084</u>	<u>152,084</u>	<u>487,812</u>	<u>864</u>	<u>87,426</u>
<u>213,684</u>	<u>(41,321)</u>	<u>14,284</u>	<u>88,223</u>	<u>(94,469)</u>	<u>46,344</u>	<u>121,436</u>
	(3,291)					
<u>-</u>	<u>(3,291)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
213,684	(44,612)	14,284	88,223	(94,469)	46,344	121,436
244,803	2,870,727	1,168,761	2,515,636	2,092,214	368,112	1,135,781
<u>\$ 458,487</u>	<u>\$ 2,826,115</u>	<u>\$ 1,183,045</u>	<u>\$ 2,603,859</u>	<u>\$ 1,997,745</u>	<u>\$ 414,456</u>	<u>\$ 1,257,217</u>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2003

	<b>Capital Projects</b>		
	<b>Morgan Hill Business Ranch</b>	<b>Total</b>	<b>Total Nonmajor Govt Funds</b>
<b>Revenues:</b>			
Property taxes and special assessment		\$ -	\$ 729,758
Funding from other governmental agencies		-	941,975
Charges for current services		2,554,085	5,212,072
Investment income and rentals	\$ 3,420	791,782	1,015,945
Fines, forfeitures, and other revenues		255,260	521,369
<b>Total Revenues</b>	<b>3,420</b>	<b>3,601,127</b>	<b>13,241,111</b>
<b>Expenditures:</b>			
Current:			-
General Government		39,011	638,884
Police Services		-	-
Public works/development services		-	4,532,723
Capital outlay		1,984,548	2,346,886
Debt service:		-	-
Principal		-	139,486
Interest and fiscal charges		-	372,209
<b>Total Expenditures</b>	<b>-</b>	<b>2,023,559</b>	<b>8,030,188</b>
Excess (deficiency) of revenues over (under) expenditures	3,420	1,577,568	390,931
Other Financing Sources (Uses)			-
Operating transfers in		-	1,189,082
Operating transfers (out)		(106,582)	(902,414)
Proceeds from long-term debt		-	-
Total other financing sources (uses)	-	(106,582)	286,668
Net change in fund balance	3,420	1,470,986	677,599
Fund Balances-Beginning	99,102	21,664,822	29,878,414
<b>Fund Balances-Ending</b>	<b>\$ 102,522</b>	<b>\$ 23,135,808</b>	<b>\$ 30,556,013</b>

**Internal Service Funds**

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost-reimbursement basis.

Information Systems-Based on the number of computers in each department, the Information Systems fund levies a charge for the costs of operating this fund.

Building Maintenance-This fund levies a charge against each department for its share, based on the square footage of City owned facilities, of the costs of operations for building maintenance.

CIP Administration-This fund levies a charge against each fund for its share, based on payroll, of the costs of implementing the capital improvements program including the costs incurred for personnel, administration and capital outlay.

Unemployment Insurance-This fund receives funds through charging each department an assessment, base on gross salaries, to cover the cost of the charges for unemployment benefits levied by the state.

Workers' compensation-This fund assesses a levy against all labor expenditures to provide the revenue to cover the costs for the excess workers' compensation insurance premium, claims administration, and expense for the worker's compensation program. A fund reserve covers the City's \$250,000 deductible per claim.

Equipment Replacement-This fund is used to accumulate reserves, via a charge to all operating departments with either equipment and/or vehicles to fund the replacement of the equipment and vehicles.

General Liability Insurance-This fund levies a charge against each operating fund/department for its share, based on payroll, of the liability and property insurance programs to cover expenditures for insurance premiums, claims administration, and claims expense. A fund reserve covers the City's \$100,000 deductible per claim.

**City of Morgan Hill, California**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2003**

**Comprehensive Annual Financial Report**

	<u>Building Maintenance</u>	<u>Information Systems</u>	<u>Unemployment Insurance</u>	<u>Worker's Compensation</u>
<b><u>Assets:</u></b>				
Current assets				
Pooled cash and investment	\$ 433,223	\$ 389,486	\$ 47,278	\$ 605,290
Restricted pooled cash and investments				40,000
Receivables:				
Accrued interest				
Other accounts receivable				10,927
Prepaid expenses				
Total current assets	<u>433,223</u>	<u>389,486</u>	<u>47,278</u>	<u>656,217</u>
Noncurrent assets				
Fixed assets, net	<u>2,694</u>	<u>52,061</u>		
Total noncurrent assets	<u>2,694</u>	<u>52,061</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b><u>435,917</u></b>	<b><u>441,547</u></b>	<b><u>47,278</u></b>	<b><u>656,217</u></b>
<b><u>Liabilities:</u></b>				
Current liabilities				
Accounts payable	20,950	5,521		46,523
Accrued liabilities	4,860			603,547
Due to other funds				
Deferred revenue				
Current obligations for:				
Compensated absences	<u>352</u>			
Total current liabilities	<u>26,162</u>	<u>5,521</u>	<u>-</u>	<u>650,070</u>
Noncurrent liabilities				
Long term obligations for:				
Compensated absences	<u>9,604</u>			
Total noncurrent liabilities	<u>9,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>35,766</u></b>	<b><u>5,521</u></b>	<b><u>-</u></b>	<b><u>650,070</u></b>
<b><u>Net Assets:</u></b>				
Invested in capital assets	2,694	52,061	-	-
Unrestricted	<u>397,457</u>	<u>383,965</u>	<u>47,278</u>	<u>6,147</u>
<b>Total Net Assets</b>	<b><u>\$ 400,151</u></b>	<b><u>\$ 436,026</u></b>	<b><u>\$ 47,278</u></b>	<b><u>\$ 6,147</u></b>



**City of Morgan Hill, California****Comprehensive Annual Financial Report**

Combining Statement of Net Assets

Internal Service Funds

For the Year Ended June 30, 2003

<u>General Liability</u>	<u>Equipment Replacement</u>	<u>CIP Administration</u>	<u>Total</u>
\$ 1,179,084	\$ 2,820,305	\$ 111,130	\$ 5,585,796
			40,000
			-
5,501	14,710		20,211
			10,927
			-
<u>1,184,585</u>	<u>2,835,015</u>	<u>111,130</u>	<u>5,656,934</u>
	554,033	18,277	627,065
<u>-</u>	<u>554,033</u>	<u>18,277</u>	<u>627,065</u>
<u>1,184,585</u>	<u>3,389,048</u>	<u>129,407</u>	<u>6,283,999</u>
			-
			-
2,100	9,077	10,050	94,221
325,817		16,114	950,338
			-
			-
		3,719	4,071
<u>327,917</u>	<u>9,077</u>	<u>29,883</u>	<u>1,048,630</u>
		40,088	49,692
<u>-</u>	<u>-</u>	<u>40,088</u>	<u>49,692</u>
<u>327,917</u>	<u>9,077</u>	<u>69,971</u>	<u>1,098,322</u>
			-
-	554,033	18,277	627,065
856,668	2,825,938	41,159	4,558,612
<u>\$ 856,668</u>	<u>\$ 3,379,971</u>	<u>\$ 59,436</u>	<u>\$ 5,185,677</u>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures &amp; Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2003

	<u>Building Maintenance</u>	<u>Information Systems</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation</u>
<b><u>Operating Revenues:</u></b>				
Charges for current services	\$ 737,741	\$ 369,906	\$ 970	\$ 452,213
Supplemental rent from operations				
Other operating income				
Total Operating Revenues	<u>737,741</u>	<u>369,906</u>	<u>970</u>	<u>452,213</u>
<b><u>Operating Expenses:</u></b>				
Salaries and benefits	160,768			
Claims and insurance premiums			31,385	410,097
Operations and maintenance	316,341	273,506		78,725
Depreciation	640	47,357		
Administrative charges	15,286	2,442		
Total Operating expenses	<u>493,035</u>	<u>323,305</u>	<u>31,385</u>	<u>488,822</u>
<b>Operating Income</b>	<u><b>244,706</b></u>	<u><b>46,601</b></u>	<u><b>(30,415)</b></u>	<u><b>(36,609)</b></u>
<b><u>Nonoperating revenues(expense):</u></b>				
Investment earnings				
Interest (expense)				
Total nonoperating revenue (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before operating transfers	<u>244,706</u>	<u>46,601</u>	<u>(30,415)</u>	<u>(36,609)</u>
Operating transfers in				
Operating transfers (out)		(40,000)		
Change in net assets	<u>244,706</u>	<u>6,601</u>	<u>(30,415)</u>	<u>(36,609)</u>
Total net assets-beginning	<u>155,445</u>	<u>429,425</u>	<u>77,693</u>	<u>42,756</u>
Total net assets-ending	<u><b>\$ 400,151</b></u>	<u><b>\$ 436,026</b></u>	<u><b>\$ 47,278</b></u>	<u><b>\$ 6,147</b></u>

**City of Morgan Hill, California**
**Comprehensive Annual Financial Report**

Combining Statement of Revenues, Expenditures &amp; Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2003

<u>General Liability</u>	<u>Equipment Replacement</u>	<u>CIP Administration</u>	<u>Total</u>
\$ 403,811	\$ 420,575	\$ 1,165,818	\$ 3,551,034
			-
3,598	3,572	2,614	9,784
<u>407,409</u>	<u>424,147</u>	<u>1,168,432</u>	<u>3,560,818</u>
		849,353	1,010,121
403,797			845,279
		182,389	850,961
	412,141	3,331	463,469
13	1,712	157,031	176,484
<u>403,810</u>	<u>413,853</u>	<u>1,192,104</u>	<u>3,346,314</u>
<u>3,599</u>	<u>10,294</u>	<u>(23,672)</u>	<u>214,504</u>
19,313	89,967		109,280
<u>19,313</u>	<u>89,967</u>	<u>-</u>	<u>109,280</u>
22,912	100,261	(23,672)	323,784
			-
			(40,000)
<u>22,912</u>	<u>100,261</u>	<u>(23,672)</u>	<u>283,784</u>
833,756	3,279,710	83,108	4,901,893
<u>\$ 856,668</u>	<u>\$ 3,379,971</u>	<u>\$ 59,436</u>	<u>\$ 5,185,677</u>

**City of Morgan Hill, California**  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2003

**Comprehensive Annual Financial Report**

	<b>Building Maintenance</b>	<b>Information Systems</b>	<b>Unemployment Insurance</b>	<b>Worker's Compensation</b>
<b>Cash Flows From Operating Activities</b>				
Receipts from customers and users	\$ 737,741	\$ 369,906	\$ 970	\$ 452,213
Payment for supplies and services	(337,782)	(286,194)	(31,497)	(488,822)
Payments to employees	(161,548)			
Payments for interfund services	(15,286)	(2,442)		
Net cash provided by operating activities	<u>223,125</u>	<u>81,270</u>	<u>(30,527)</u>	<u>(36,609)</u>
<b>Cash Flows from NonCapital Financing Activities</b>				
Transfers to other funds		(40,000)		
Advance from other funds				
Net Cash provided by noncapital financing activities		<u>(40,000)</u>		
<b>Cash Flows from Capital and Related Financing Activities</b>				
Capital Contributions				
Purchases of capital assets		(53,338)		
Net cash used by capital and related financing activities		<u>(53,338)</u>		
<b>Cash Flows from Investing Activities</b>				
Proceeds from sales and maturities of investments				
Purchases of investments				
Interest Earnings				
Net cash used by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in cash and equivalents	223,125	(12,068)	(30,527)	(36,609)
Cash and equivalents at July 1, 2002	210,098	401,554	77,805	770,929
<b>Cash and equivalents at June 30, 2003</b>	<b><u>\$ 433,223</u></b>	<b><u>\$ 389,486</u></b>	<b><u>47,278</u></b>	<b><u>\$ 734,320</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating Income	244,706	46,601	(30,415)	(36,609)
Adjustments to reconcile operating income to net cash provided(used) by operating activities:				
Depreciation Expense	640	47,357		
(Increase) in Receivables				
(Increase) decrease in due from other funds				
(Increase) in prepaid items				
Increase (decrease) in accounts payable	(21,441)	(12,688)	(112)	
Increase in compensated absences	(780)			
Increase in due to other funds				
Total adjustments	<u>(21,581)</u>	<u>34,669</u>	<u>(112)</u>	<u>-</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 223,125</u></b>	<b><u>\$ 81,270</u></b>	<b><u>\$ (30,527)</u></b>	<b><u>\$ (36,609)</u></b>

**City of Morgan Hill, California**  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2003

**Comprehensive Annual Financial Report**

<u>General Liability</u>	<u>Equipment Replacement</u>	<u>CIP Administration</u>	<u>Total</u>
\$ 407,409	\$ 424,147	\$ 1,168,432	\$ 3,560,818
(437,625)	7,365	(374,928)	(1,949,483)
		(841,327)	(1,002,875)
			(17,728)
<u>(30,216)</u>	<u>431,512</u>	<u>(47,823)</u>	<u>590,732</u>
			(40,000)
			-
			(40,000)
			-
	(82,833)	(3,717)	(139,888)
	(82,833)	(3,717)	(139,888)
			-
19,313	87,323		106,636
<u>19,313</u>	<u>87,323</u>	<u>-</u>	<u>106,636</u>
(10,903)	436,002	(51,540)	517,480
1,189,329	2,384,303	162,670	5,196,688
<u>\$ 1,178,426</u>	<u>\$ 2,820,305</u>	<u>\$ 111,130</u>	<u>\$ 5,714,168</u>
			-
3,599	10,294	(23,672)	214,504
			-
-	412,141	3,331	463,469
			-
			-
(33,815)	9,077	(35,508)	(94,487)
		8,026	7,246
			-
<u>(33,815)</u>	<u>421,218</u>	<u>(24,151)</u>	<u>376,228</u>
<u>\$ (30,216)</u>	<u>\$ 431,512</u>	<u>\$ (47,823)</u>	<u>\$ 590,732</u>



## **Capital Assets Used in the Operation of Governmental Funds**





**City of Morgan Hill, California****Comprehensive Annual Financial Report****Capital Assets Used in the Operation of Governmental Funds****Comparative Schedules by Source**

June 30, 2003

	<u>2003</u>	<u>2002</u>
<b><u>Governmental Funds capital assets:</u></b>		
Land	\$ 23,560,224	\$ 22,697,581
Buildings and Improvements	22,438,616	10,460,114
Machinery, Equipment and Vehicles	622,947	2,223,308
Infrastructure	6,592,963	-
Construction in Progress	5,082,477	9,465,087
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 58,297,227</u></b>	<b><u>\$ 44,846,090</u></b>
<b><u>Investments in Governmental Capital Assets by Source:</u></b>		
Administration	\$ 1,371,625	\$ 2,296,788
Community Development	86,836	453,478
Redevelopment Agency	22,821,013	33,136,597
Public Works	8,374,875	1,516,032
Public Safety	837,632	1,380,222
Parks and Recreation	24,805,246	6,062,973
<b>Total Governmental Funds Capital Assets</b>	<b><u>\$ 58,297,227</u></b>	<b><u>\$ 44,846,090</u></b>

**City of Morgan Hill, California****Comprehensive Annual Financial Report**

Capital Assets Used in the Operation of Governmental Funds

Schedule by Function and Activity

For the Fiscal Year Ended June 30, 2003

<b>Function and Activity</b>	<b>Land</b>	<b>Buildings &amp; Other Improvements</b>	<b>Machinery, Equipment and Vehicles</b>	<b>Infra- Structure</b>	<b>Construction in Progress</b>	<b>Total</b>
General Government						
Administration	\$ 545,070	\$ 1,285,749	\$ 470,348	\$ -	\$ -	\$ 2,301,167
Community Development		17,935	449,773			467,708
Redevelopment Agency	15,938,218	9,023,961	149,187		3,177,686	28,289,052
Public Works	82,315	830,331	524,038	6,729,030	1,084,516	9,250,230
Public Safety	243,014	541,062	734,115		185,233	1,703,424
Parks and Recreation	6,751,607	18,400,763	115,567		635,042	25,902,979
Total Governmental Capital Assets	23,560,224	30,099,801	2,443,028	6,729,030	5,082,477	67,914,560
Less Accumulated Depreciation	-	(7,661,185)	(1,820,081)	(136,067)	-	(9,617,333)
<b>Capital Assets, Net</b>	<b>\$ 23,560,224</b>	<b>\$ 22,438,616</b>	<b>\$ 622,947</b>	<b>\$ 6,592,963</b>	<b>\$ 5,082,477</b>	<b>\$ 58,297,227</b>

**City of Morgan Hill, California****Comprehensive Annual Financial Report**

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function and Activity

For the Fiscal Year Ended June 30, 2003

<u>Function and Activity</u>	<b>Governmental Funds Capital Assets</b>		<b>Deductions/ Transfers</b>	<b>Accumulated Depreciation</b>	<b>Governmental Funds Capital Assets, Net</b>	
	<b>July 1, 2002</b>	<b>Additions</b>			<b>June 30, 2003</b>	
General Government						
Administration	\$ 2,296,788	\$ 4,379	\$ -	\$ (929,542)	\$ 1,371,625	
Community Development	453,478	14,230	-	(380,872)	86,836	
Redevelopment Agency	33,136,597	15,536,971	(20,384,516)	(5,468,039)	22,821,013	
Public Works	1,516,032	6,991,885	742,313	(875,355)	8,374,875	
Public Safety	1,380,222	323,202	-	(865,792)	837,632	
Parks and Recreation	6,062,973	197,803	19,642,203	(1,097,733)	24,805,246	
<b>Total General Government</b>	<b>\$ 44,846,090</b>	<b>\$ 23,068,470</b>	<b>\$ -</b>	<b>\$ (9,617,333)</b>	<b>\$ 58,297,227</b>	



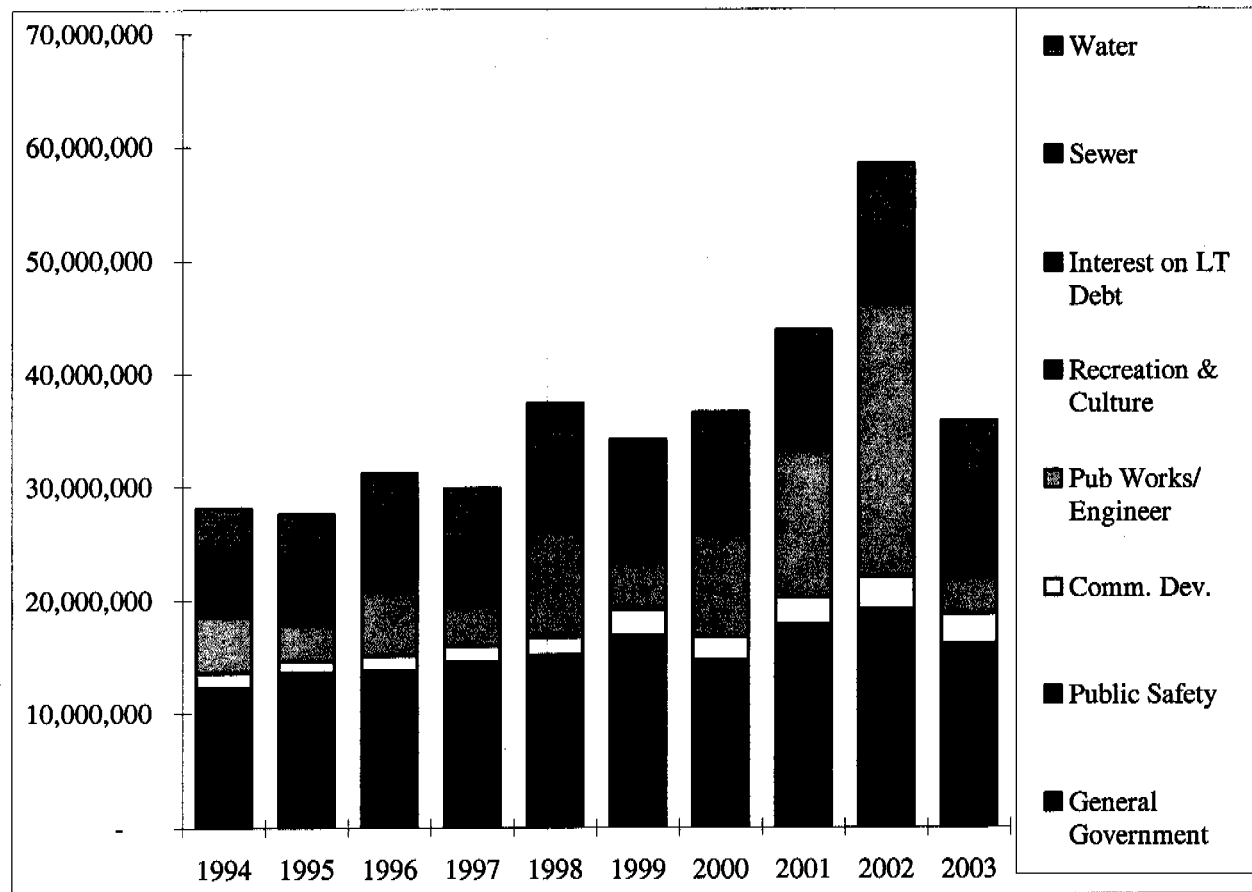
## **Statistical Section**



**CITY OF MORGAN HILL**

# City of Morgan Hill, California Comprehensive Annual Financial Report

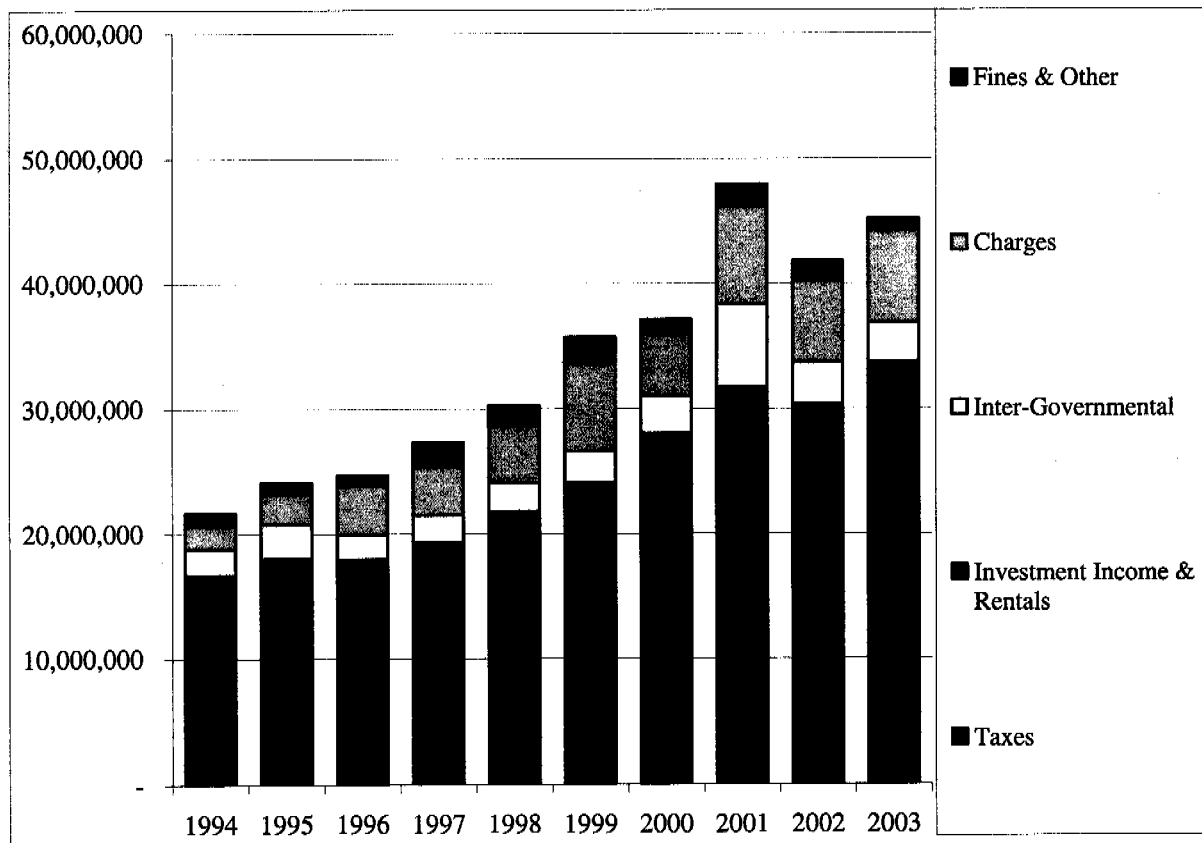
## Government-Wide Expenses by Function – Last Ten Fiscal Years



Fiscal Year	General Government	Public Safety	Comm. Dev.	Recreation & Culture	Pub Works/Engineer	Interest on LT Debt	Sewer	Water	Total
1994	7,570,079	4,719,140	1,287,148	5,015,141		3,059,794	2,829,817	3,716,602	28,197,721
1995	8,172,798	5,469,083	1,018,663	3,181,502		2,456,590	3,487,313	3,884,026	27,669,975
1996	7,707,236	6,151,726	1,249,785	5,753,351		1,800,977	4,551,430	4,051,605	31,266,110
1997	7,478,469	7,148,700	1,392,931	3,461,513		1,578,185	4,650,263	4,181,335	29,891,396
1998	8,344,919	6,850,677	1,607,566	9,324,387	23,162	1,371,630	5,316,732	4,556,646	37,395,719
1999	9,144,887	7,723,173	2,341,091	4,078,308	109,758	1,033,017	5,194,941	4,549,253	34,174,428
2000	6,786,810	7,930,897	2,055,704	9,081,036	248,874	709,910	5,191,182	4,551,540	36,555,953
2001	8,914,097	8,977,870	2,430,755	12,904,485	446,043	264,626	4,914,214	4,965,719	43,817,809
2002	9,724,585	9,507,553	2,894,041	24,043,161	555,522	201,795	5,730,600	5,821,290	58,478,547
2003	6,684,625	9,467,613	2,678,838	3,231,907	1,440,595	372,209	6,274,448	5,641,739	35,791,974

Note: Implementation of GASB 34 causes current year data to not be comparable to prior years. Prior years data includes capital outlay.

## General Governmental Revenues by Source – Last Ten Fiscal Years

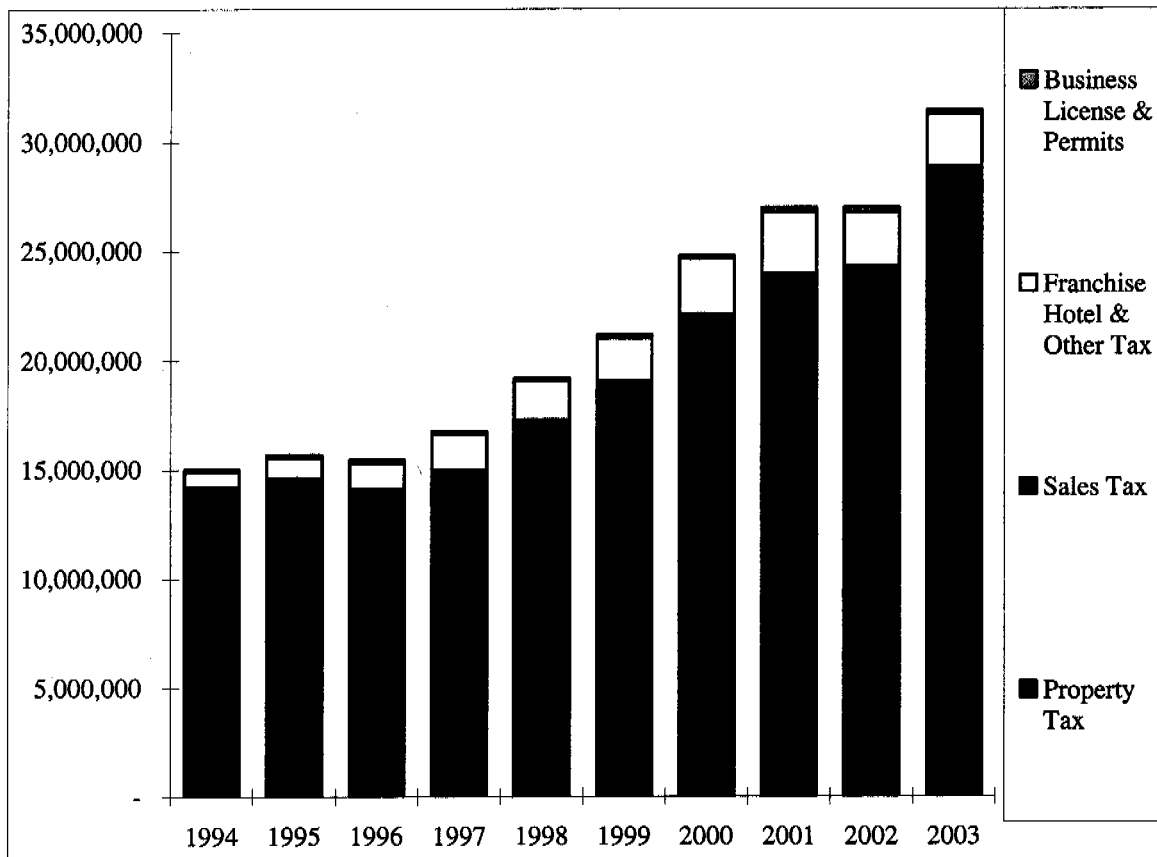


Fiscal Year	Investment Income & Rentals	Inter- Governmental			Fines & Other	Totals
1994	15,021,620	1,673,825	2,109,677	1,876,393	1,009,150	21,690,665
1995	15,684,391	2,335,909	2,754,175	2,428,428	922,253	24,125,156
1996	15,448,796	2,518,401	2,010,451	3,942,559	785,461	24,705,668
1997	16,749,753	2,564,214	2,201,724	3,875,789	1,938,414	27,329,894
1998	19,180,764	2,615,452	2,297,996	4,538,601	1,631,889	30,264,702
1999	21,167,161	2,942,956	2,471,349	6,995,169	2,116,486	35,693,121
2000	24,770,915	3,223,934	3,000,557	4,899,156	1,217,662	37,112,224
2001	26,968,090	4,779,827	6,628,611	7,831,911	1,718,814	47,927,253
2002	26,973,648	3,376,460	3,316,144	6,557,964	1,576,857	41,801,073
2003	31,461,119	2,244,758	3,140,343	7,389,742	978,357	45,214,319

Source: City of Morgan Hill Annual Financial Reports



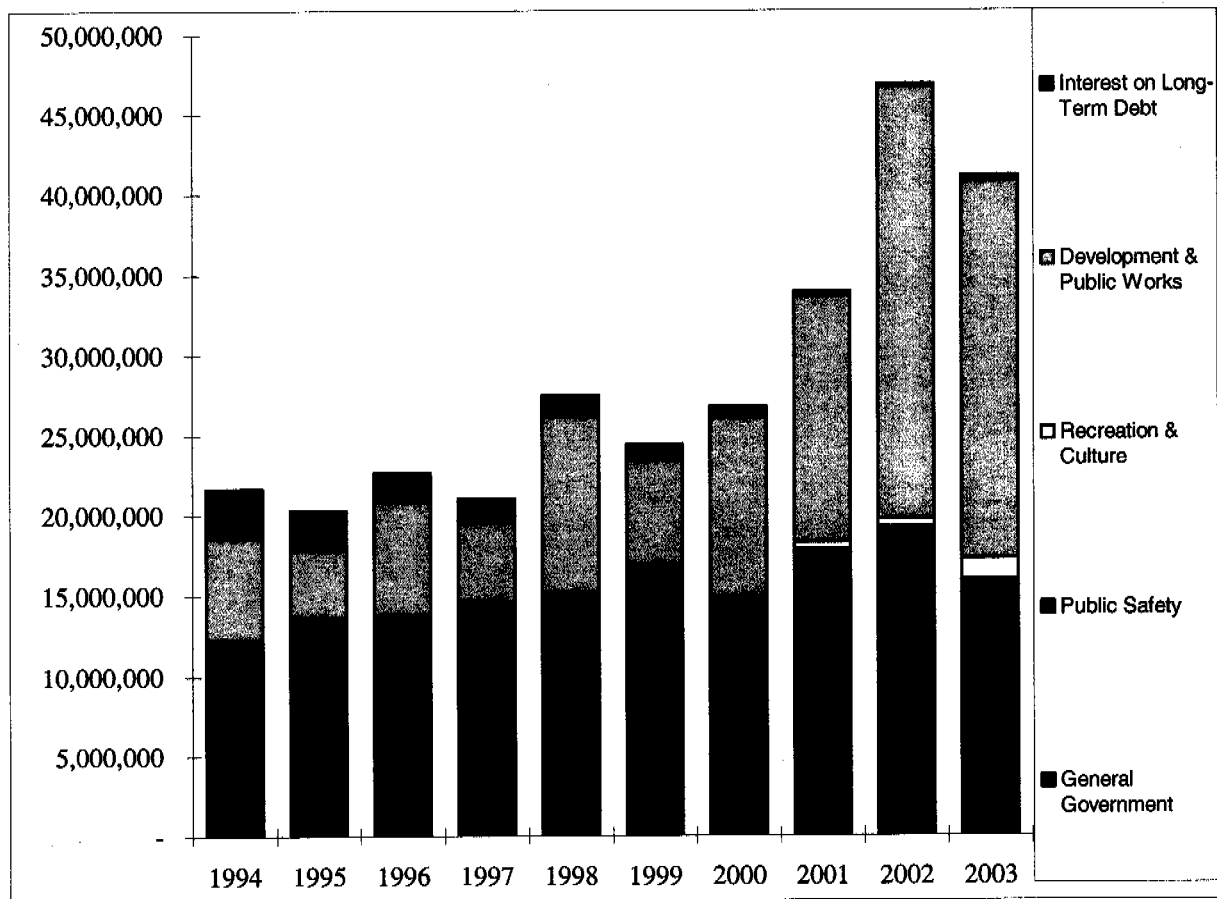
## General Governmental Tax Revenues by Source – Last Ten Fiscal Years



Fiscal Year	Sales Tax		Franchise Hotel & Other Tax		Totals
1994	11,541,133	2,652,090	690,064	138,333	15,021,620
1995	11,584,064	3,028,094	923,748	148,485	15,684,391
1996	10,889,489	3,213,586	1,193,623	152,098	15,448,796
1997	11,885,844	3,104,685	1,636,140	123,084	16,749,753
1998	13,533,222	3,762,371	1,748,706	136,465	19,180,764
1999	15,049,473	3,990,716	1,994,321	132,651	21,167,161
2000	17,655,775	4,454,774	2,525,798	134,568	24,770,915
2001	18,431,805	5,532,132	2,803,261	200,892	26,968,090
2002	19,454,298	4,870,295	2,443,461	205,594	26,973,648
2003	24,226,642	4,636,927	2,401,341	196,209	31,461,119

Source: City of Morgan Hill Annual Financial Reports

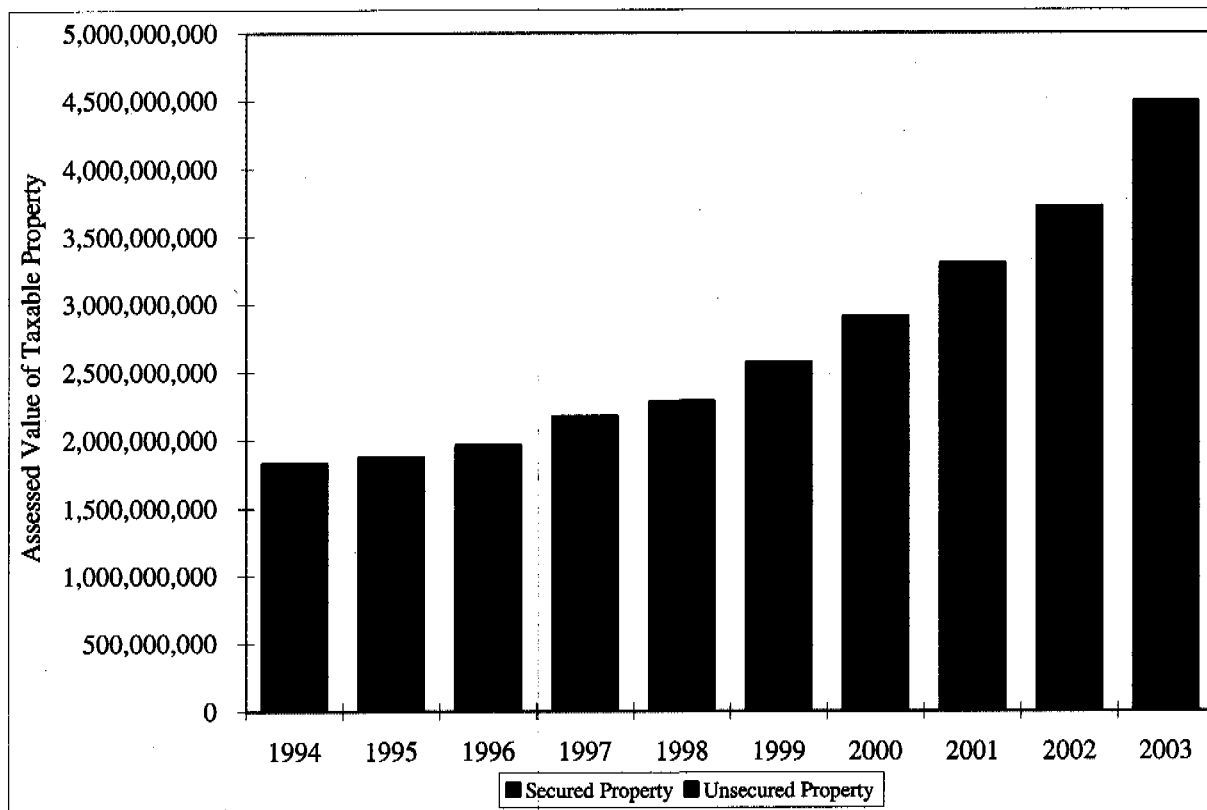
## General Governmental Expenditures by Function – Last Ten Fiscal Years



Fiscal Year	Public Safety		Recreation & Culture	Development & Public Works		Interest on Long-Term Debt	Total
1994	7,570,079	4,719,140	-	6,302,289	3,059,794		21,651,302
1995	8,172,798	5,469,083	-	4,200,165	2,456,590		20,298,636
1996	7,707,236	6,151,726	-	7,003,136	1,800,977		22,663,075
1997	7,478,469	7,148,700	-	4,854,444	1,578,185		21,059,798
1998	8,344,919	6,850,677	23,162	10,931,953	1,371,630		27,522,341
1999	9,144,887	7,723,173	109,758	6,419,399	1,033,017		24,430,234
2000	6,786,810	7,930,897	248,874	11,136,740	709,910		26,813,231
2001	8,914,097	8,977,870	446,043	15,335,240	264,626		33,937,876
2002	9,724,585	9,507,553	555,522	26,937,202	201,795		46,926,657
2003	6,390,674	9,611,260	1,317,059	23,502,545	372,209		41,193,747

Source: City of Morgan Hill Annual Financial Reports

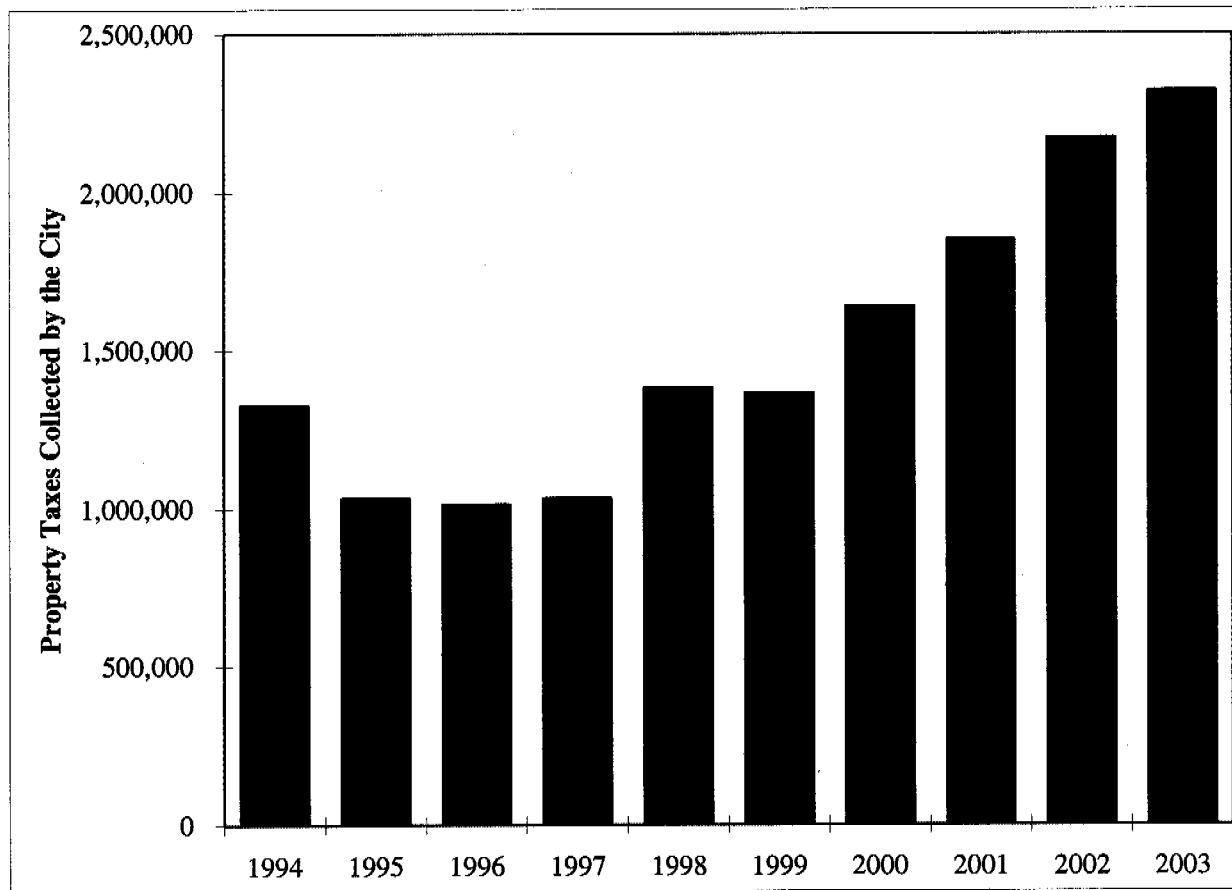
## Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years



Fiscal Year	Unsecured Property		Total Assessed	Estimated Market
1994	1,752,925,165	76,272,468	1,829,197,633	1,829,197,633
1995	1,802,279,091	74,424,527	1,876,703,618	1,876,703,618
1996	1,872,852,078	89,383,013	1,962,235,091	1,962,235,091
1997	2,067,578,668	104,430,641	2,172,009,309	2,172,009,309
1998	2,165,464,553	117,355,113	2,282,819,666	2,282,819,666
1999	2,425,372,759	143,744,374	2,569,117,133	2,569,117,133
2000	2,765,363,043	141,101,487	2,906,464,530	2,906,464,530
2001	3,138,372,709	163,977,576	3,302,350,285	3,302,350,285
2002	3,527,696,005	196,754,357	3,724,450,362	3,724,450,362
2003	4,232,110,659	257,720,250	4,489,830,909	4,489,830,909

Source: County of Santa Clara Tax Rates and Information

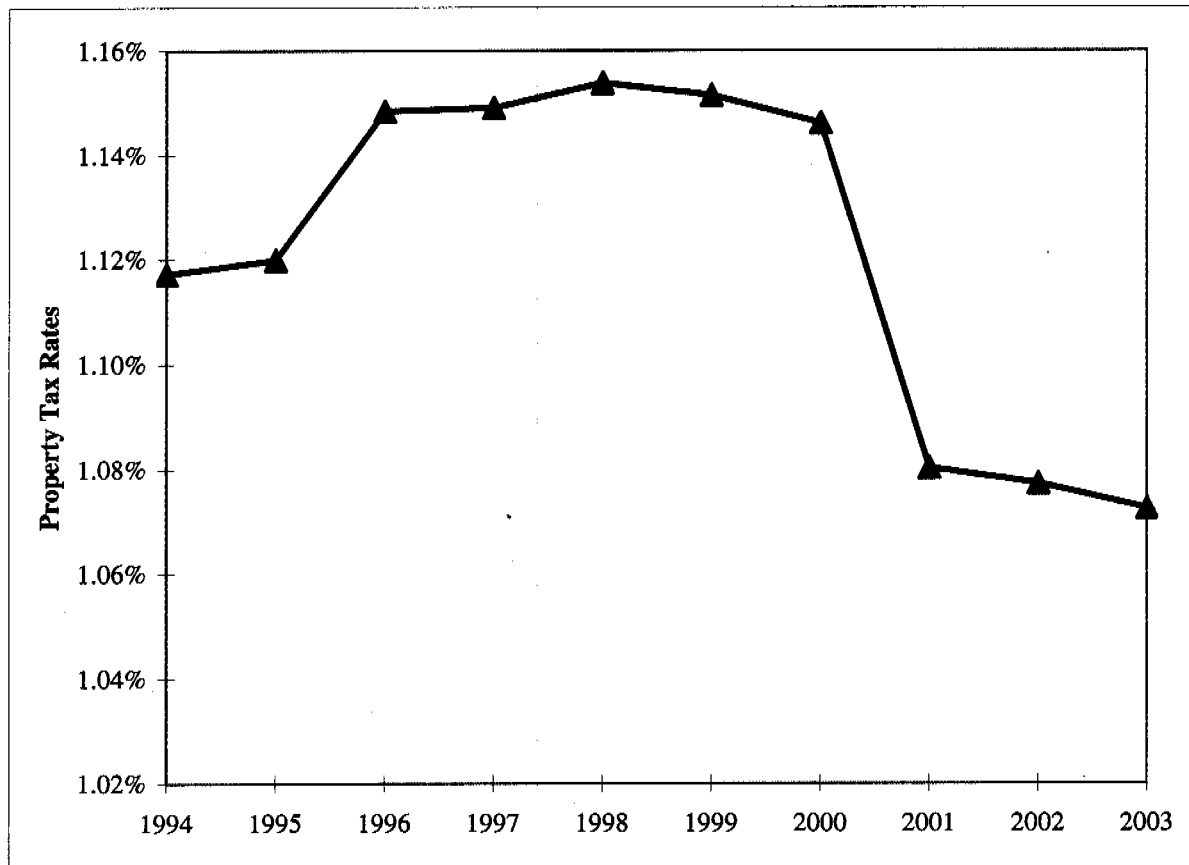
## General Fund Property Tax Levies and Collections – Last Ten Fiscal Years



Fiscal Year	Property Tax Levied and Collected		Property Tax Rates		Value of Property Subject to Local Tax Rates
	Total		Total	City's Portion	
1994	20,433,967	1,326,008	1.1171%	6.4892%	1,829,197,633
1995	21,015,327	1,031,614	1.1198%	4.9089%	1,876,703,618
1996	22,534,308	1,013,276	1.1484%	4.4966%	1,962,235,091
1997	24,958,559	1,030,483	1.1491%	4.1288%	2,172,009,309
1998	26,110,891	1,379,572	1.1538%	5.2835%	2,282,819,666
1999	29,385,562	1,363,527	1.1515%	4.6401%	2,569,117,133
2000	33,310,990	1,635,769	1.1461%	4.9106%	2,906,464,530
2001	35,671,988	1,848,188	1.0802%	5.1811%	3,302,350,285
2002	40,119,779	2,167,507	1.0772%	5.4026%	3,724,450,362
2003	48,150,294	2,315,104	1.0724%	4.8081%	4,489,830,909

Sources: City of Morgan Hill Annual Financial Reports  
County of Santa Clara Tax Rates and Information  
Financial Transactions concerning Cities of California

## Property Tax Rates, Direct and Overlapping Governments – Last Ten Fiscal Years

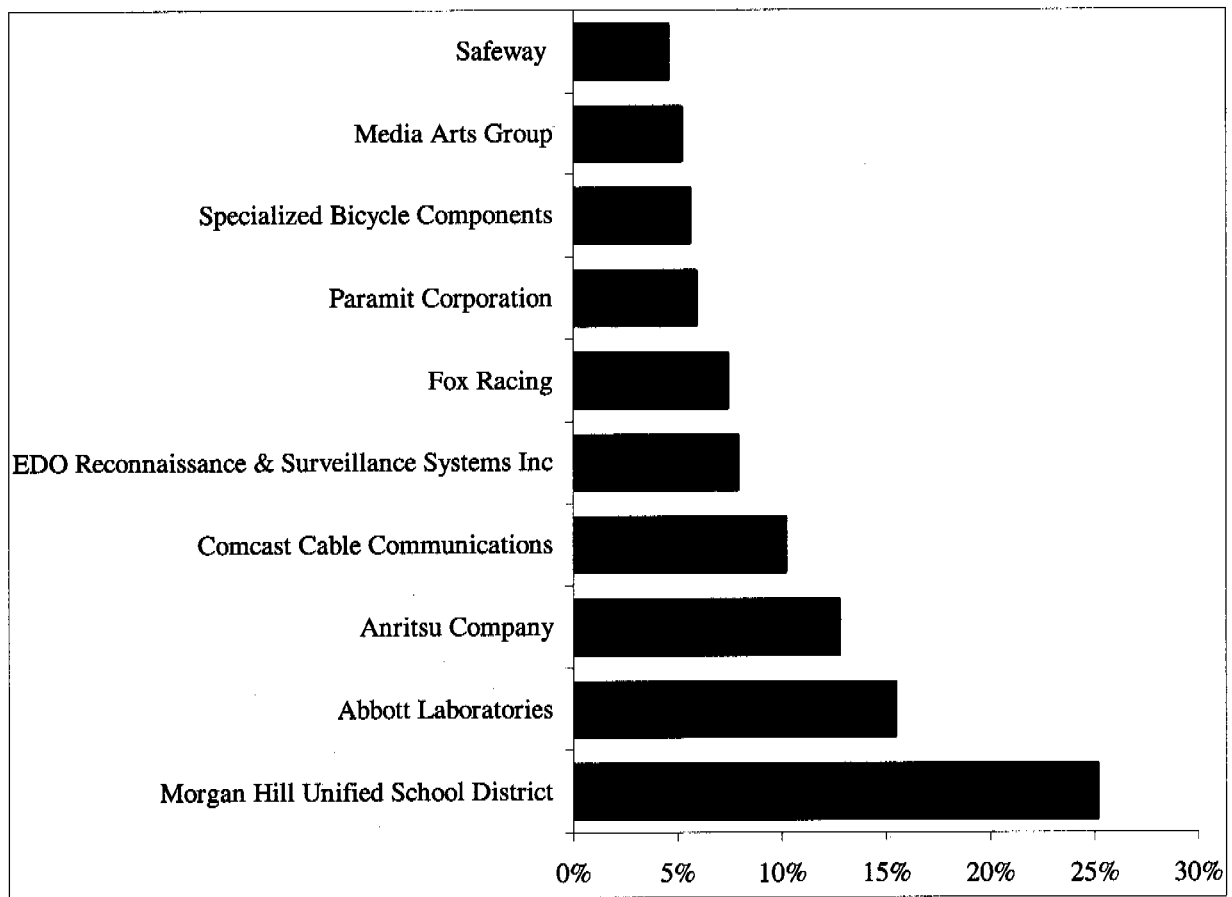


Fiscal Year	Basic County Wide Levy	Additional Approved Supplemental Taxes			Total Tax Rate
		County	City	Schools and Other Districts	
1994	1.0000%	0.0329%	0.0000%	0.0842%	1.1171%
1995	1.0000%	0.0356%	0.0000%	0.0842%	1.1198%
1996	1.0000%	0.0362%	0.0000%	0.1122%	1.1484%
1997	1.0000%	0.0365%	0.0000%	0.1126%	1.1491%
1998	1.0000%	0.0412%	0.0000%	0.1126%	1.1538%
1999	1.0000%	0.0405%	0.0000%	0.1110%	1.1515%
2000	1.0000%	0.0343%	0.0000%	0.1118%	1.1461%
2001	1.0000%	0.0380%	0.0000%	0.0422%	1.0802%
2002	1.0000%	0.0388%	0.0000%	0.0384%	1.0772%
2003	1.0000%	0.0388%	0.0000%	0.0336%	1.0724%

Note: A portion of the Basic County Wide Levy is distributed to Cities, Schools, and Other Districts per State Proposition 13.

Source: County of Santa Clara Tax Rates and Information

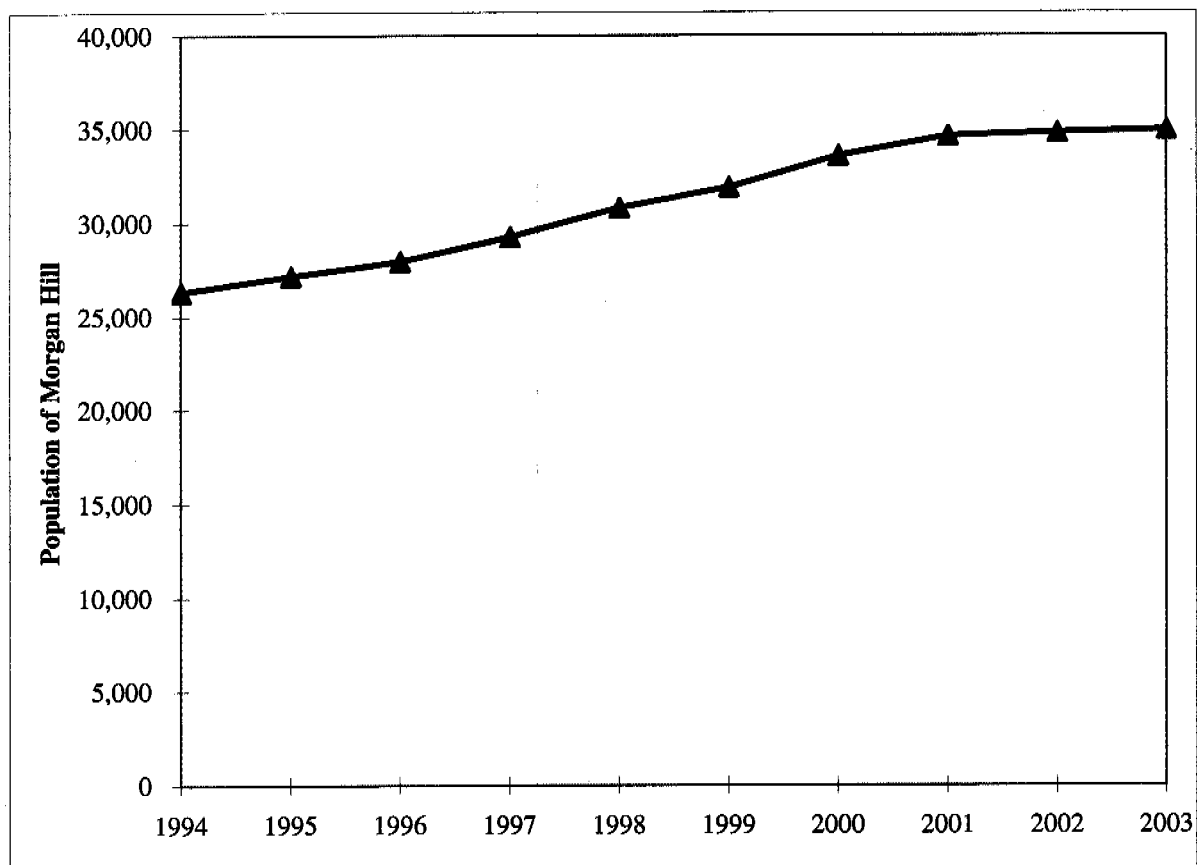
## Principal Employers



Employer	Number of Employees	Percent of Total
Morgan Hill Unified School District	980	25.1%
Abbott Laboratories	602	15.4%
Anritsu Company	498	12.8%
Comcast Cable Communications	397	10.2%
EDO Reconnaissance & Surveillance Systems Inc	307	7.9%
Fox Racing	288	7.4%
Paramit Corporation	229	5.9%
Specialized Bicycle Components	217	5.6%
Media Arts Group	202	5.2%
Safeway	177	4.5%
Total Employees of Principal Employers	3,897	100.0%

Source: City of Morgan Hill Business License Renewal Report

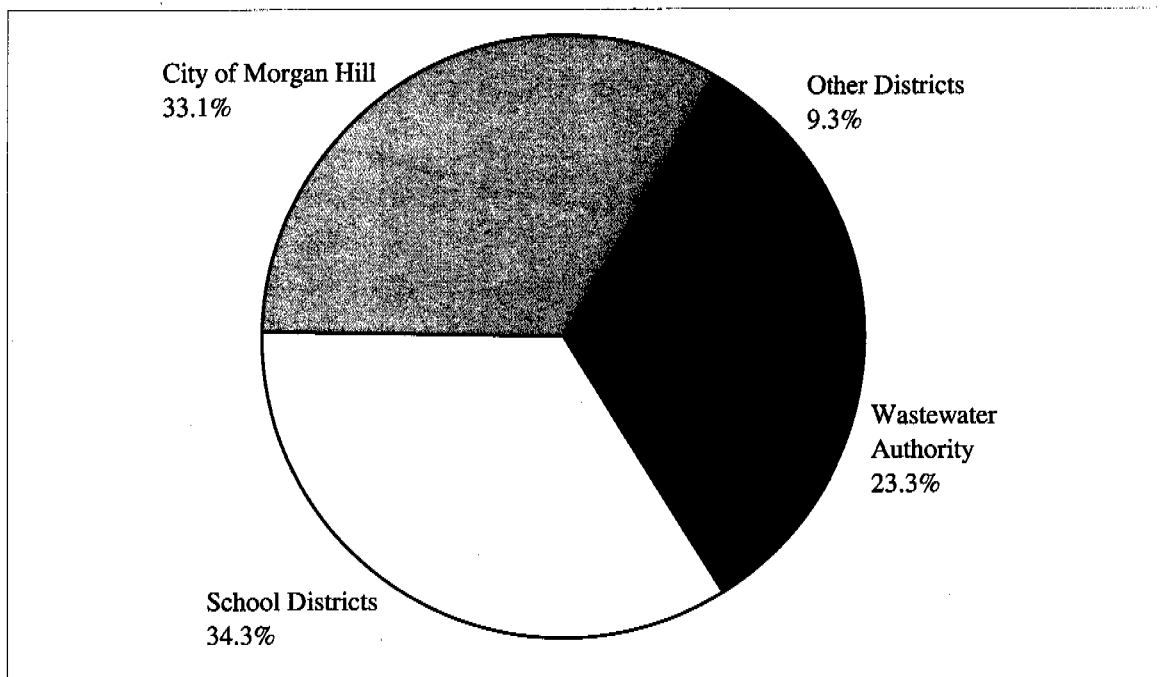
## Demographic Statistics – Last Ten Fiscal Years



Fiscal Year	City Population	Santa Clara County Population	City Population as % of County's	Growth Rate for Year
1994	26,285	1,587,768	1.7%	4.5%
1995	27,138	1,606,908	1.7%	3.2%
1996	27,933	1,612,258	1.7%	2.9%
1997	29,246	1,650,000	1.8%	4.7%
1998	30,786	1,653,100	1.9%	5.3%
1999	31,896	1,658,000	1.9%	3.6%
2000	33,550	1,682,585	2.0%	5.2%
2001	34,600	1,697,812	2.0%	3.3%
2002	34,785	1,719,565	2.0%	0.6%
2003	34,918	1,729,917	2.0%	0.9%

Source: State of California Department of Finance-Population Research Unit

## Schedule of Direct and Overlapping Debt at June 30, 2003

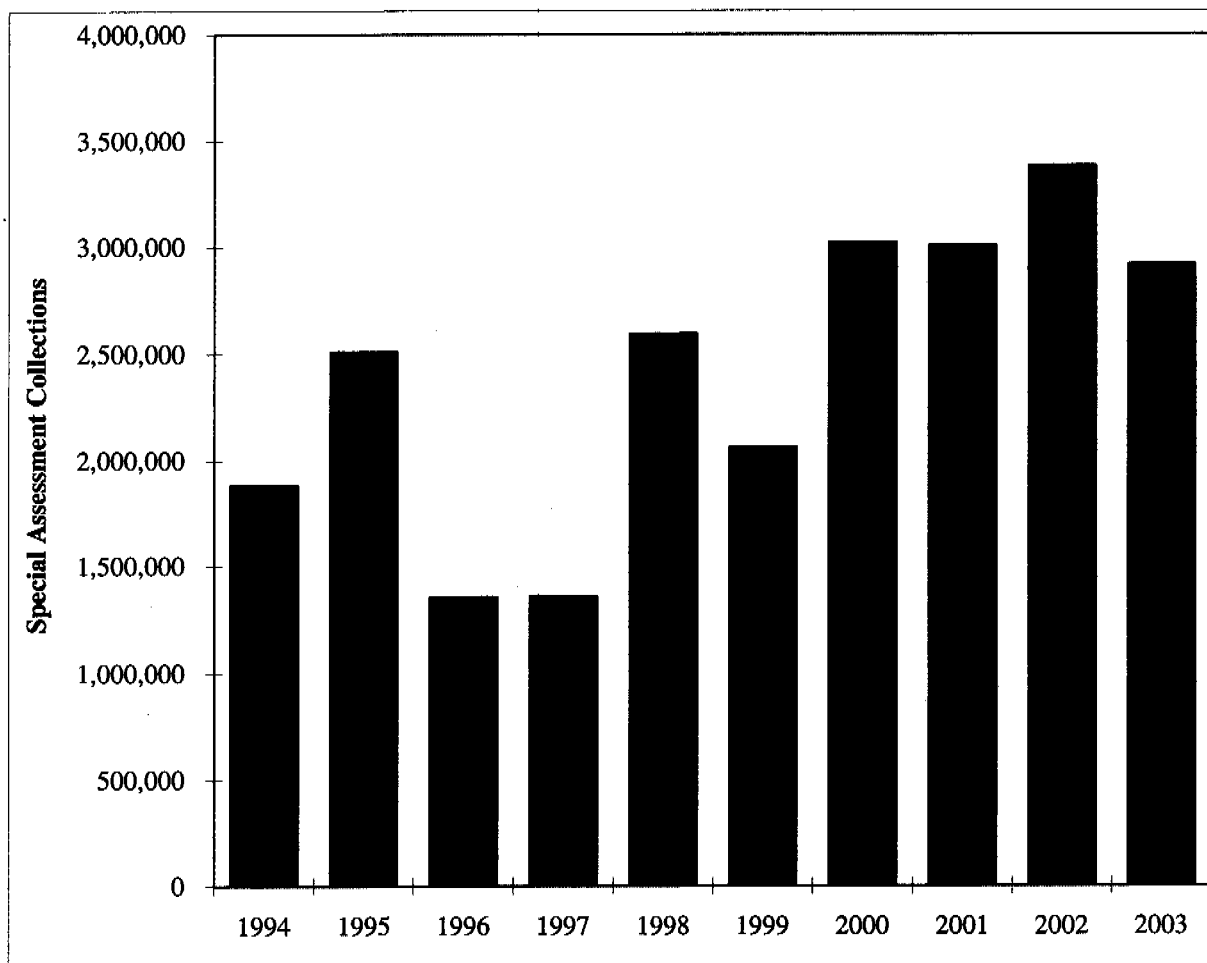


<u>Name of Entity</u>	<u>% Applicable To the City</u>	<u>Debt Applicable To the City</u>
Santa Clara County General Fund Obligations	1.2760%	\$ 6,136,220
Santa Clara County Board of Education Certificates of Participation	1.2760%	\$253,733
Santa Clara Valley Water District Certificates of Participation	1.2760%	2,546,896
Gavilan Joint Community College District Certificates of Participation	17.4640%	93,432
Morgan Hill Unified School Lease Tax Obligations	46.0740%	33,321,986
City of Morgan Hill Certificates of Participation	100.0000%	3,910,683
City of Morgan Hill 1915 Act Bonds	100.0000%	28,220,000
South County Regional Wastewater Authority	100.0000%	22,684,875
<b>Total Gross Direct and Overlapping Debt</b>		<b>\$ 97,167,825</b>
Less: South County Regional Wastewater Authority (100% Self Supporting from Sewer Service and Connection fees)		<u>(22,684,875)</u>
<b>Total Net Direct and Overlapping Debt</b>		<b><u>\$ 74,482,950</u></b>
<b>Ratios to Assessed Year Valuation</b>		
Direct Debt issued by the City of Morgan Hill		0.72%
Total Gross Debt		2.16%
Total Net Debt		1.66%

Note: % applicable to the City reflects portion of outstanding debt paid by Morgan Hill property owners.  
Source: California Municipal Statistics and City of Morgan Hill Annual Financial Reports



## Special Assessment Billings and Collections – Last Ten Fiscal Years

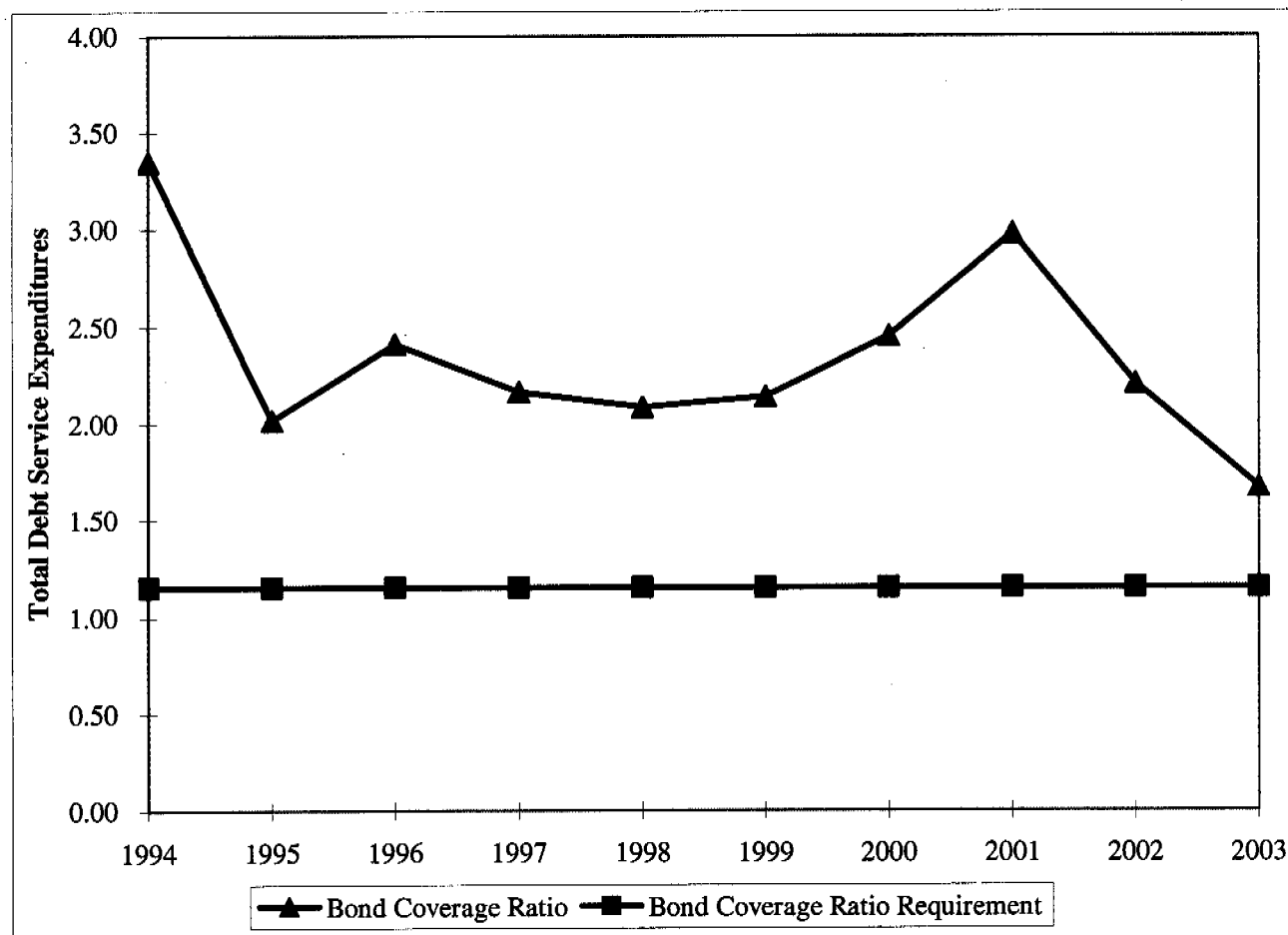


Fiscal Year	Special Assessment	
	Billings	Collections
1994	\$ 2,686,176	1,883,891
1995	2,656,464	2,507,826
1996	1,382,183	1,353,589
1997	1,276,808	1,357,446
1998	2,331,787	2,591,476
1999	2,227,057	2,064,086
2000	2,920,472	3,016,811
2001	2,657,811	3,000,889
2002	3,294,975	3,381,575
2003	2,931,207	2,913,141

Note: Collections include collection of taxes delinquent in prior year.

Sources: City of Morgan Hill Annual Financial Reports  
NBS Government Finance Group Special Assessment Annual Reports

## Sewer Revenue Bond Coverage – Last Ten Fiscal Years



Fiscal Year	Gross Revenue	Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service			Bond Coverage Ratio	Bond Coverage Ratio Requirement
				Principal	Interest	Total		
1994	5,177,905	2,158,088	2,348,088	30,000	671,586	701,586	3.35	1.15
1995	6,676,176	2,337,546	3,188,863	35,000	1,547,408	1,582,408	2.02	1.15
1996	7,364,965	2,916,199	4,448,766	35,000	1,809,981	1,844,981	2.41	1.15
1997	7,588,490	3,034,977	4,553,513	505,000	1,599,054	2,104,054	2.16	1.15
1998	8,087,634	3,644,931	4,442,703	530,000	1,599,943	2,129,943	2.09	1.15
1999	8,107,084	3,500,574	4,606,510	560,000	1,592,583	2,152,583	2.14	1.15
2000	8,700,586	3,479,152	5,221,434	590,000	1,539,546	2,129,546	2.45	1.15
2001	9,596,371	3,309,528	6,286,843	625,000	1,486,157	2,111,157	2.98	1.15
2002	8,268,772	3,573,286	4,695,486	655,000	1,469,825	2,124,825	2.21	1.15
2003	6,418,828	3,954,415	2,464,413	635,000	843,813	1,478,813	1.67	1.15

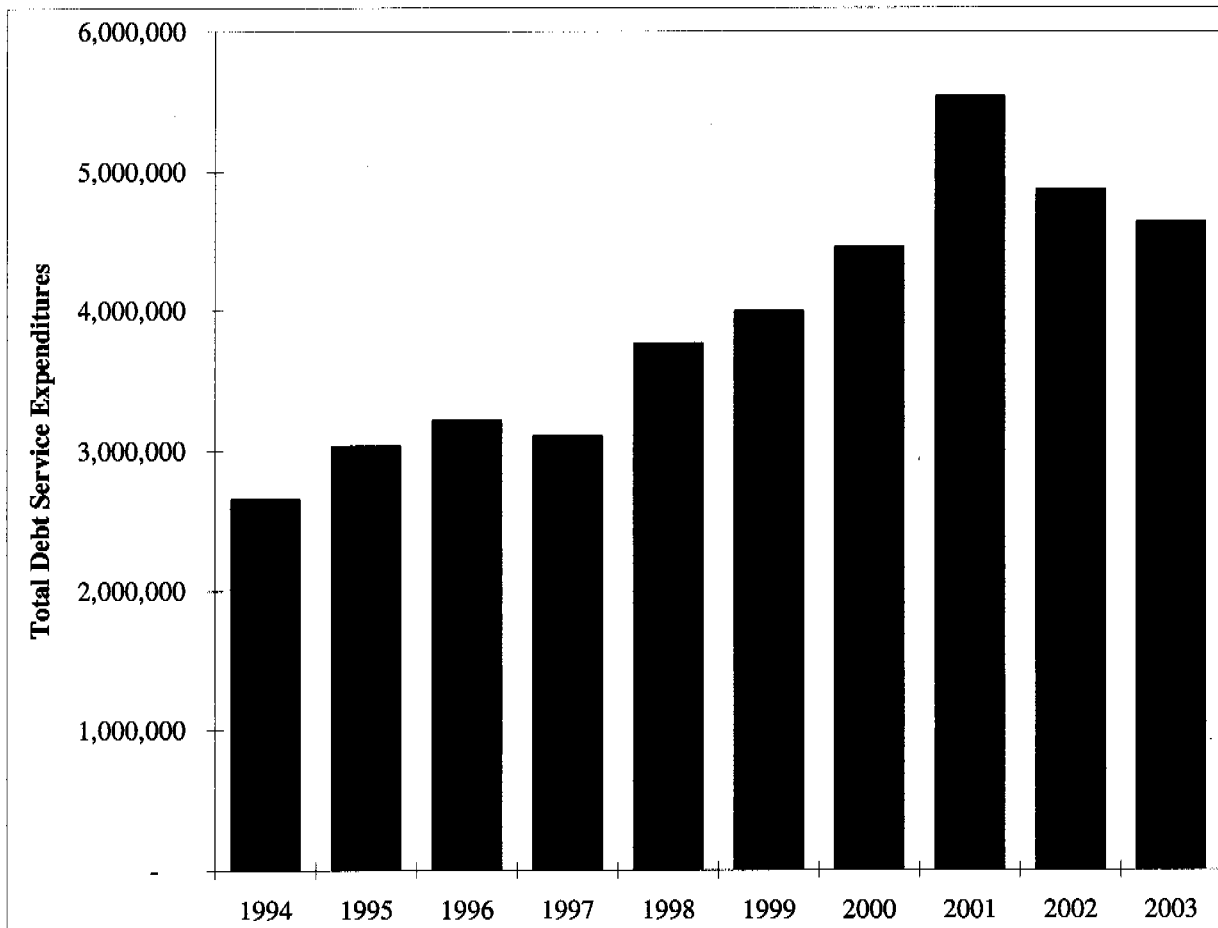
Note: Bond coverage ratio was calculated by dividing Net Revenue Available for Debt Service by Annual Debt Service Payment. Includes 1979 Sewer Revenue Bonds and Sewer Capacity Rights Payable. Includes both Sewer Operating and Sewer Mitigation Enterprise Funds. Direct operating expense is net of depreciation and amortization.

Source: City of Morgan Hill Annual Financial Reports

ASSESSED VALUE - SECURED PROPERTY		\$ 4,232,110,659
Debt Limit Percentage		<u>15%</u>
Total Debt Limit		\$ 634,816,599
AMOUNT OF DEBT SUBJECT TO LIMIT:		
Total Bonded Debt	\$ 24,977,557	
Less: Special Assessment Bonds	1,680,000	
Capacity Rights Payable	<u>23,297,557</u>	
Amount of Debt Subject to Limit		<u>0</u>
LEGAL DEBT MARGIN		<u><u>\$ 634,816,599</u></u>

Source: City of Morgan Hill Finance Department

## Sales Taxes – Last Ten Fiscal Years



Fiscal Year	Sales Tax Received by City	% Change
1994	2,652,090	27.7%
1995	3,028,094	14.2%
1996	3,213,586	6.1%
1997	3,104,685	-3.4%
1998	3,762,371	21.2%
1999	3,990,716	6.1%
2000	4,454,774	11.6%
2001	5,532,132	24.2%
2002	4,870,295	-12.0%
2003	4,636,927	-16.2%

Source: City of Morgan Hill Annual Financial Reports

Note: Above does not include public safety sales tax which is reported as funding from other governmental agencies.

**City of Morgan Hill, California**

Miscellaneous Statistics

June 30, 2003

**Comprehensive Annual Financial Report****General Information**

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	12 square miles
Miles of Streets	114
Number of Street Lights	3,253
Taxable Sales	\$463,692,700
Number of Registered voters	16,774
Median household income for Morgan Hill	\$81,958
Elevation in feet	320
Building Permits Issued during year	1,388

**Demographics:**

Median Age	34.0
Median Persons per household	3.1
Population (consisting of)	34,918

White	63%
Hispanic	28%
Asian	6%
Black	2%
Other	1%

**Fire Protection:**

Number of stations	2
Number of engines	3

**Police Protection:**

Number of stations	1
Number of personnel	52
Number of reserves	4
Number of police cars	28

**Municipal Water Services:**

Number of Active Accounts	11,100
Average Daily Consumption (gallons)	7,532,532
Miles of Water Mains	162
Pumping Capacity (gallons/day)	12,520,000

**Sewer Services**

Peak Flow (gallons/day)	5,209,000
Miles of sewer lines	137

**Education:**

Elementary Schools	9
Junior High and High Schools	4
Total Average Daily Attendance	8,161

**Health Facilities:**

Dentists and Optometrists	31
Physicians/Surgeons	28
Chiropractors	10
Physical Therapists	2
Medical Clinics	5
Veterinarians	4

**Culture and Recreation:**

Parks	9
Acres in parks	58
Libraries	1
Theaters	3
Churches	21
Radio Stations	2
Reservoirs	4

**Employees:**

Administration and Finance	42
Police Officers and Support Staff	52
Community Development	22
Public Works and Engineering	58
Economic Development	10
Police Dispatch Services	6

Total Employees 191

**Property Tax Rates and Amount Levied:**

Total (1)	1.07%	\$ 48,150,294
City's Portion (2)	4.50%	\$ 2,167,507

Note: (1) Excludes allocations collected by Special Assessment Districts.

(2) Excludes allocations collected by RDA.

Sources: Various School District Attendance and City Records, Morgan Hill Chamber of Commerce Directory





